1924
Box 1

RAILWAYS ACT, 1921.

PROCEEDINGS OF THE RAILWAY RATES TRIBUNAL.

SCHEDULES OF STANDARD CHARGES.

TUESDAY, MAY 27TH, 1924.

SECOND DAY.

LONDON:
PRINTED & PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE
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1924

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PROCEEDINGS OF THE RAILWAY RATES TRIBUNAL.

TUESDAY, MAY 27TH, 1924.

PRESENT:

W. B. CLODE, ESQ., K.C. (*President*).
W. A. JEPSON, ESQ.
GEO. C. LOCKET, ESQ., J.P.

SECOND DAY.

THE SOLICITOR - GENERAL (SIR HENRY SLESSER, K.C.) and Mr. W. BOWSTEAD (instructed by the Treasury Solicitor) appeared on behalf of the Minister of Transport.

THE LORD ADVOCATE (THE RT. HON. H. P. MACMILLAN, K.C.), MR. A. C. CLAUSON, K.C., MR. BRUCE THOMAS and MR. ALFRED TYLOR (instructed by the Honorary Solicitors) appeared for the Railway Companies' Association.

THE HON. R. STAFFORD CRIPPS appeared for the London County Council.

MR. F. G. THOMAS, K.C., and MR. JACQUES ABADY (instructed by Sir Thomas R. Ratcliffe-Ellis) appeared for the Mining Association of Great Britain.

SIR DOUGLAS HOGG, K.C., M.P., and MR. F. J. WROTTESLEY appeared for the Traders' Co-ordinating Committee; The National Association of Railway Travellers; and the following local authorities: The boroughs of Leeds, Cardiff, Oldham, St. Helens, West Ham, East Ham, Gravesend, Richmond, Dartford, Southport, Watford, Leamington Spa, Morecambe, and Rothesay; and the Urban District Councils of: Mitcham, Heston and Isleworth, Teddington, Wallington, Surbiton, Harrow-on-the-Hill, Prestwich, Epsom, Carshalton, Barnet, Hampton, Bexley Heath, and Staines.

MR. HERBERT MORRISON appeared for the National Joint Council of the Trade Union Congress; The Labour Party; and the London Labour Party.

MR. W. G. R. BOYS and MR. HUGH SHAYLER appeared for the Civil Service Confederation.

MR. S. CARLILE DAVIS appeared for the Plymouth Incorporated Mercantile Association.

MR. GEO. DEW, J.P., L.C.C., appeared for the National Association for the Promotion of Cheap Transit.

MR. JACQUES ABADY (Instructed by Messrs. Kensholes & Prosser, Aberdare) appeared for the Cardiff Collieries, Limited.

MR. A. MOON appeared for the Midland Association of Blast Furnace Owners.

MR. F. C. BORER represented Messrs. Harrods Staff Council.

President: Lord Advocate, will you resume?

Lord Advocate: I endeavoured to point out yesterday, Sir, in analysing Section 58 of the Act, that the figure of which we are in search is really a composite figure, the first ingredient in which is a revenue figure to be ascertained as a matter of history as a result of investigation of the position of the companies in 1913. The remaining ingredients in the composite figure are conditioned by capital. Heads (*a*), (*b*) and (*c*) all relate to capital expenditure, whereas the first and main factor in the composite figure is a revenue figure; and therefore, when one is considering heads (*a*), (*b*) and (*c*) one is really in a different chapter of the case from the chapter with which one is concerned when one is dealing with the first and main ingredient, which is mainly a question of revenue; and I had pointed out that the capital with which we are concerned in heads (*a*), (*b*) and (*c*) are sums of capital each of which is defined by certain conditions. The first one is a sum of capital which is to answer the description of being the basis on which interest was allowed in settlements with the Government. The second is capital expenditure since the first day of January not falling within (*a*). The two compartments are necessarily mutually exclusive, and I would pause to say this, that in the event of any particular item being in the end, in our final settlement with the Government, excluded from (*a*), then it would naturally fall, almost inevitably, into (*b*), as being expenditure which had not been comprised in compartment (*a*), and therefore fell to be dealt with in compartment (*b*); the two being mutually exclusive. Then (*c*), again, is a question of capital expenditure, and the final addition is one of special character altogether—share of economies.

Now, I propose to-day to analyse head (*b*), upon which I had just started yesterday afternoon when the Court adjourned. Probably the most convenient way is to begin with the last words of description. What we want, first of all, is expenditure on capital account incurred since the first day of January, 1913. Then we want to get the amount of capital raised or provided in respect of that expenditure. Then, having got that, we reach the last stage, which is the fixing of the allowance necessary to remunerate the capital raised or provided in respect of that expenditure. Logically, therefore, I think one naturally begins, first of all, with a search for the capital expenditure. Having got that, you will then consider what has been the capital raised or provided in respect of that expenditure, and then you will proceed to ascertain what is the allowance which may be necessary to remunerate that capital so raised or provided in respect of that expenditure.

Now, when one comes to the ascertainment of the expenditure, the expenditure has to be expenditure on capital account incurred since the 1st day of January, 1913. That is the *terminus a quo*. I explained yesterday that this compartment would necessarily require to embrace the capital expenditure down to the date of the fixing of the standard charges that arose upon Section 59, in order that this compartment might contain all the capital that was

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to be remunerated up to the fixing of the rates, because the next revision will begin at that point, and, therefore, the *terminus ad quem* is, for the moment, unascertained. The *terminus ad quem* will be the date of the fixing of the charges. We have for the meantime brought out capital expenditure account in compartment (*b*) down to the 1st December, 1923. The subsequent additions will be furnished when we get nearer the termination of our task.

New, here, again, to ascertain the expenditure on capital account we naturally have recourse to the companies' records; and as you are aware, Accoun: No. 4 of the Railway Accounts Act, 1911, is the annual capital account. It is entitled "Receipts and expenditure on capital account"; and from that account one gets the capital expended year by year. Now the first question which arises is this, that while the Statute directs us to ascertain the expenditure on capital account, it does not indicate whether that expenditure is to be net or gross. When one looks at Acceunt Ne. 4 in the railway records, you will find that the account is in a sense a balance; that items are brought into credit as well as items placed at debit, and what is brought out is the net capital expenditure. I think that a strict reading of the Statute for which the railway companies might contend—a literal reading of the Statute—would entitle them to say that all you have to ascertain is what sums, in point of fact, have been expended of a capital nature during the period in question; but as the companies proceeded with their investigations they came to the conclusion that as the Accounts No. 4 which they were making the basis of their summation contained credits to capital account, at any rate as a matter of equity—I am afraid to say as a matter of concession, but as a matter of equity—it would be proper to have regard to those credits in the accounts. As I say, strictly and literally we are only told to get the capital expended, but as capital received certain credits in respect, for example (to take the easiest case) of a sale of land, if land is sold in the course of the year the method pursued by the railway company, by all the companies, I think, is to carry to the credit of capital account the proceeds of that sale, and that does, of course, *pro tanto*, diminish the capital expenditure of the year. As I say, the litoral reading of the section would result, I think, in a disregard of the credits, because we are not told that we are to take in entries of credits at all; we are simply to find what we have spent; but after due consideration the railway companies were of opinion that the more correct, er, at any rate, the more equitable, method would be to have regard to those credits to capital acceunt as well, and, in short, to reflect in the figures put before you now the net expenditure on capital account since the 1st January, 1913. You will appreciate the point at once, Sir, and it is a rather important point, because it results, of course, in the railway companies in point of fact foregoing in their account a considerable amount of capital expenditure which is, by this process, written off against capital receipts. Perhaps you might care to look at any Acceunt No. 4, just to see how it is done. Shall we take the Midland? At page 23 you will see a capital account.

President: Page 23 in the big book?

Lord Advocate: Yes, in the blue book—the London, Midland and Scottish book; and I merely want to show you how the capital account is compiled in compliance with the Railway Accounts Act, 1911. This is Account No. 4 for the Midland Railway Company. If you will be good enough to look at the column headed "Amount expended during the year." Now, this is capital expenditure during the year, and if you cast your eye down that column you will notice that certain of the items in it are marked "Credit," and are entered in italics, with the result that the figure at the foot of the column, "Total Expenditure," is really a total net expenditure after allowing fer credits carried to capital acceunt; and if you pass to the next page, page 24, which gives you the detail of the preceeding account—details of capital expenditure for the year ended 31st December, 1913—you will see there the credit items entered. You will see in these figures a certain number of credit items, and I will just instance two. One is "Works, etc., demolished, Credit £5,107 13s. Redemption of capital expenditure, Kirkby, etc. (Sidings not on company's land), credit £4,077"; and then there is a small credit under land and compensation. The result is, therefore, that when one goes to the summation of capital expenditure for the year, one gets a not sum and not a gross sum; and what we have done, accordingly, has been to go through the accounts of all constituent and subsidiary companies year by year, extract the figure appearing in Account No. 4 as the capital expenditure, the net capital expenditure for each year, sum these up and call the sum so arrived at the expenditure on capital account incurred since tho 1st day of January, 1913, but the figure, as you understand, contains those credits.

I will give you now the Minister of Transport's comment upon this matter, and it is to be found in Minister of Transport 1—that is, F. 4885, in the middle of page 13. This is the Minister's comment: "Under Secton 58 (1) (*b*) provision is made for the inclusion in the Standard of an allowance upon additional capital raised or provided in respect of capital expenditure incurred since 1st January, 1913, and not included in the allowance under 58 (1) (*a*) unless the value of the undertaking can be shown not to have been enhanced. The capital expenditure claimed could be verified by the Ministry and, with that under 58 (1) (*a*), agreed with the companies' accounts, but attention is directed to several points of principle which may possibly arise. Under the arrangements relating to the possession of the railways by the Government (1914-1921), interest was paid upon additional works, but no credit was required for works displaced and not replaced. It is for consideration whether the additional sums under 58 (1) (*b*) should relate to the net or gross additions to the companies' capital expenditure." You will observe that in our relations with the Government—our settlements with the Government—no credit was required for works displaced and not replaced——

Mr. Jepson: Under (*a*).

Lord Advocate: Under (*a*). Then the Minister very properly draws attention to the question of whether the additional sums under 58 (1) (*b*) should relate to the net or gross additions to the companies' capital expenditure. Well, if I may say so, at once, the companies have in fact decided that question against themselves for the purpose of this Inquiry. They have put before you the net additions to the companies' capital expenditure, for the reason that it seemed inequitable to apply the strict, literal reading of the Statute, which weuld have entitled us to claim the expenditure which we had actually made, and because we felt that it was appropriate to give the credits, and therefore to solve this question really adversely to ourselves; and the figures which you have before you are figures in which credit is given for those displacements which took place during the period.

President: Do you wish to read any more of this? I see that under Section 58 (1) (*b*) there are some further remarks.

Lord Advocate: That relates to anether compartment, if you please, Sir. I want, if I may, to keep the case as orderly as one may. It is a little complex.

President: Quite.

Lord Advocate: That is the position with regard to capital account as we understand it, broadly. We take Account No. 4 as it stands; we sum up the results which we got from our investigations of those accounts, and we carry that forward as capital expenditure. But that does not quite end the matter, I am afraid, because there has been some difference of opinion as to the method of the ascertainment of the capital expenditure; and it will be for the Tribunal, after they have heard what we have done, to rule upen the method, and with the instruction which your ruling will give us I anticipate no

difficulty in actually working out the figures; but you will find that the companies have not worked this out uniformly. Three of the companies—the London, Midland and Scottish, the London and North Eastern, and the Southern Railway Company—have proceeded precisely as I have indicated; that is to say, they have made their investigation of the successive yearly capital accounts, and carried to the summation the figures of net capital expenditure for each year as derived from the respective accounts No. 4. The Great Western Railway Company has proceeded rather differently. What they did was, in effect, to ascertain the net capital expenditure at the beginning of the period—that is to say, at the beginning of 1913—and then to take the figure at the close of 1923, subtract the one from the other, and say the result is the intervening net capital expenditure. Now if you go about it in that way you get a different result from that which you reach if you go about it in the way which I first described; and the reason of that difference in result is due to this circumstance, that upon amalgamation a number of adjustments were made upon capital account. These adjustments will, of course, reflect themselves in the figure resulting from subtracting the 1913 from 1923 capital. The other companies did not proceed upon that basis, because in their view—and as I will submit, I think the correct view, which you will decide—a number of adjustments which were made at amalgamation were not adjustments on capital account which truly affected the issue involved in this inquiry.

President: Would you just tell me, were they adjustments between capital and revenue, as to whether it ought to be put to the one or the other, or what was the nature of the adjustments?

Lord Advocate: I will come to that in a moment. There was a certain disparity of practice among the companies. For example, horses were treated as capital account—the sale of horses was treated as capital account in some companies; in other companies' accounts it was treated as stock; and to bring uniformity about you had to make certain adjustments in the items in order to group them on a uniform principle; but the result was that you did affect capital account, because if you had in one company's accounts, for instance, horses entered in stock, it would not be in that capital account to which I am referring. In the other company the item would appear as a factor in capital, and therefore, if you wanted to bring the accounts to a common denominator you had to transfer items from one company to another, because we now had one account only for the amalgamated company; and therefore you had to select your method of framing the accounts and your policy in dealing with items of that sort.

President: Then you put, we will say, certain sums expended on horses, and which appeared nuder stock, you put them as capital when you adjusted them?

Lord Advocate: Well, it was really the other way about.

President: The other way about.

Lord Advocate: We would take out from capital horses which had been treated as capital in one company's accounts, and carry these to stock. The result of that, of course, is a depletion of capital account, and that, of course, would reflect itself in the result if you merely subtracted 1913 from 1923, because in 1923 those adjustments made on amalgamation would come into effect; and consequently you would get in that difference a reflection of adjustments which were made at the period when all the accounts were overhauled in order to put them on a uniform basis. Now the Great Western method, while something may be said for it from the point of view of simplicity—simply taking how much at 1913, how much at 1923, and saying the difference was the capital expenditure—we humbly submit is not so accurate a method for this purpose as finding out in fact what was the capital expenditure over the years in question, disregarding items of adjustment which took place at amalgamation, and which truly did not affect the actual assets of the Company. That is the point. The transactions which affect the adjustments are not cash transactions, except in a very few instances. The adjustments were made not in respect of any transaction that took place at amalgamation, but in respect of adjustments on the accounts made at amalgamation; and I will give another instance, which will show at once, I think, the greater accuracy of the first of the methods to which I have alluded, as contrasted with the second. It was not unnatural that when the accounts of the railway companies underwent, as they did at amalgamation, a pretty close scrutiny, that a number of items came under criticism, and it was found that there had survived in the accounts of some of the railway companies entries relating to practically—I do not know what I should call it, but to dead stock. Take the case of a steamer, for example, in the case of a company that had steamers lost prior to 1913, but still remaining as a credit—the value of it not written off in capital account, as it probably should have been, when a casualty occurred or when the steamer was sold. There were a number of items which were eliminated for capital account at amalgamation, when that scrutiny took place, as being items which it was not desirable should continue to exist in the capital account of the amalgamated company, because they did not represent assets; but they still were in the capital account. The writing off of these reduced the capital account, of course; but they were not truly credits in the sense in which I am speaking of credits to capital, because if you take, for example, a vessel lost in 1912, or an asset displaced, which disappeared in 1912, it could not, and should not, be credited as against capital expenditure occurring since 1913, because if you reduce your capital expenditure since 1913 by a credit in respect of something which was displaced in 1913, you are in fact diminishing the capital which you have actually expended since 1913, not by something which you have received since 1913, but by an adjustment which represents something not in existence in 1913 at all. The real fact is that an item of that sort should have been written out before 1913, and if it had been written out before 1913 we should not have had it. In fact, it did not appear as a credit, of course, in Account No. 4 anywhere; it was only dealt with at amalgamation and written off then. In point of fact, it should have been written off before 1913 altogether. If it had been written off before 1913 it would, of course, have no relation to our present inquiry at all, because antecendent to 1913 we are concerned only with revenue; we are not concerned with what capital was earning before 1913; we are only concerned with what were the revenues in 1913. The capital account is therefore irrelevant, and the traders are not affected; the capital account is of no interest to the traders prior to 1913; the capital account is of great interest to the traders subsequent to 1913; because part of the Standard Revenue which we are seeking is conditioned by capital expenditure since 1913. Therefore, when adjustments such as I have indicated took place on amalgamation, we respectfully think that the more accurate method of ascertaining the actual net capital expenditure is to go through the accounts year by year and find in fact what was spent, after giving credit for those items which represents sales and displacements not replaced. The other method would have an unfortunate result in this respect, that it would practically rob us of any chance of remuneration of expenditure actually made by debiting us with an item which was not an item properly in that period at all, but was merely due to a readjustment of accounts not representing any tangible transaction at all—not a cash transaction. You will, I respectfully submit, Sir, have to consider which of these methods is the correct one—whether simply taking 1913 and subtracting from 1923 accurately reflects and yields the capital expenditure of which you are in search. My submission, after consideration, is that the method of taking figures

from Account No. 4 is the correct method for the purpose of getting at the actual capital expenditure, making the concession, however, that the credits in that account should also be brought in.

Mr. Jepson: I suppose we may take it that the different principle adopted by the Great Western is carried forward into these revenue schedules for the Great Western?

Lord Advocate: It is, because what they do is this. They take the allowance which they claim upon that capital expenditure so ascertained. The three other companies have ascertained that capital expenditure on the first method. The Great Western has ascertained their capital expenditure on the other method. Each, then, claims the allowance for remunerating that capital expenditure, or the capital raised in respect of that expenditure (to be precisely accurate); and the figures reflect the two. Of course, it is quite easy, whichever of the two methods you select, to readjust the figures for the purpose of our account; but that discrepancy arose, I think, partly, if I may say so, without unduly disclosing what happened, through a misapprehension of advice that I gave myself as to how the thing should be done.

Sir Douglas Hogg: I will not inquire into these mysteries.

Lord Advocate: I do not want to make any indecent exposure of what happens in the consultation room; but I think probably that was how it arose—through a misapprehension of the advice which was given as to the preparation of the account. But, certainly, the method which I advocate as being the correct method, as the one to be adopted, is to take Account No. 4 with its debits and credits, and bring in all the debits as representing the capital expenditure which must be remunerated, always bearing in mind this, that if capital is not brought into this compartment (*b*) now, it will for ever lose its chance of remuneration—a thing one cannot sufficiently bear in mind, that this is a finding which is going to be stereotyped, the Standard Revenue; and, if I may so put it, it is the only chance of the capital which has been expended, and has been expended in fact, receiving its recognition in revenue. It is now or never: and that makes the inquiry so critical for both parties, that we are to get at the figure, which is to be a stereotyped figure which will always be the basis figure. Just to round off this chapter of the case, the totals of Account No. 4 will give us the whole capital expenditure, but, of course, it will give us the capital expenditure under (*a*) as well which the Government has taken cognisance of and has remunerated with their 5 per cent. You will take that out, and the balance represents what fell into compartment (*b*). That rounds off the capital expenditure.

Sir Douglas Hogg: Does that mean that if the Government have disallowed any capital expenditure, if not properly chargeable, the result is you are now seeking to charge it under (*b*) instead of (*a*)?

Lord Advocate: Yes, that is the result of the calculation.

Sir Douglas Hogg: I wanted to be quite clear about that.

Lord Advocate: That is a submission, that when you have got the result of Account No. 4 which shows the capital expenditure, debit and credit, and you get the net figure over the period in question you take out that portion of it which has received recognition at the hands of the Government under paragraph (*a*) and the balance of net capital falls, we submit, into compartment (*b*).

President: Sir Douglas, you made some observations just now.

Sir Douglas Hogg: I ventured to ask the Lord Advocate, Sir, whether that involved that any item which had been disallowed by the Government in the claim under (*a*) as, for example, being a revenue and not a capital item, was now being claimed under (*b*), and the Lord Advocate tells me that is so.

Lord Advocate: It would not be a revenue. If you are able to show it was not a capital item at all and was disallowed by the Government because it was revenue——

Sir Douglas Hogg: Or for any other reason.

Lord Advocate: Yes, and you could criticise what has fallen into compartment (*b*) as not being truly legitimate capital expenditure then it would be open to that criticism certainly, and not only so, if I may further reinforce Sir Douglas Hogg's point. If he can show in compartment (*b*) that any of that expenditure relegated to compartment (*b*) has not enhanced the value of the undertaking. That is, perhaps, a less easy task, but, at any rate, it is open to the trader to say, notwithstanding it has found its way into compartment (*b*) and is legitimately taken as capital expenditure, still they have another shot at it; they can, if they please, demonstrate to your satisfaction that it has not enhanced the value of the undertaking, and if that be so they will succeed in diminishing the content of compartment (*b*) still further.

The next point arises on the words "raised or provided." It is noteworthy that the allowance which you are to adjust is not an allowance necessary to remunerate the expenditure which I shall assume we have reached, but to remunerate the additional capital which may have been raised or provided in respect of that expenditure. Having got the expenditure, you have now to investigate what capital was raised or provided in respect of it. Well, I touched yesterday upon the controversy which may emerge as to what these words mean, and my submission is that capital raised is capital obtained from the public; the capital provided is capital obtained from other sources. The companies, in ordinary course, are making capital expenditure from time to time. They do not go to the public at every moment that they are making fresh capital expenditure; nothing would be less advantageous to all interests concerned than that they should hurry off to the money market at every moment when they require capital. They are naturally influenced in selecting the time for raising capital by the money conditions of the market; it is desirable that they should resort to the market when they can get the most favourable terms, and so long as they can carry on meantime on what I might call their internal resources in order to await the selection of the best period, the best financial period, to raise their money, so much the better for all concerned. Also they cannot be, of course, raising comparatively small sums, and, accordingly, the position is this: That capital expenditure is always going on and accumulating, and resort is ultimately had to the market for the purpose of raising that additional capital, and then you replace the capital which you have used, obtained from your internal resources. You may replace some of it, it is not necessary to replace it all, but you substitute the raised capital for the capital which you have derived from your internal resources. That is the ordinary business transaction; one of the matters properly within the province of the directors to consider how they may deal with their capital account. From time to time, while the railway companies have at their disposition various funds to which they can resort for the purpose of capital expenditure pending their resort to the market to raise new capital, all net capital expenditure must be ultimately represented by moneys received sooner or later, but in the interval they have various resources, internal resources, to which they may resort, and the most natural resource to which they resort is known as the free reserves companies. Now, I understand in this matter I approach a controversial topic. When the railway company derives or resorts to free reserves for the purpose of capital expenditure, are we entitled in compartment (*b*) to bring in the sum drawn from free reserve and expend it on capital purposes as being capital provided in respect of that capital expenditure? We submit we are. The point, as I apprehend, which is taken against that is this: So long as the money is standing at the credit of free reserve it is yielding income, and that income, it is claimed, is revenue from other sources, and therefore as long as the free reserve

remains intact and is not resorted to for capital expenditure it diminishes the fund which has to be raised from the rates and charges, because, being another source of revenue, the sum that has to be raised is a sum to be raised from rates and charges *plus* other sources of revenue, and therefore, say the traders, this item of income is one of which we are deprived when you have resort to free reserves, withdraw the money which is there yielding some return—I do not know what kind of return it may yield; it may only be a deposit, according to the permanence of the holding, but at least you withdraw certain funds which at the moment are making their contribution to other sources of revenue, and applying this capital expenditure there is a corresponding diminution of that item known as other sources of revenue and a corresponding greater demand upon rates and charges to make up the total standard revenue. The answer, as I humbly submit, is quite clear. There are several answers. I do not know that I should say there are several answers, but if there is one that is conclusive it is enough. But there is, first of all, this answer, that the free reserves are in character truly the money of the shareholders. They are undistributed profits of the company; you remember how they come into existence. They are funds built up from the surplus undistributed among the shareholders in dividend after the gross revenue of the company has been ascertained, and after the expenditure has been deducted there remains the fund which represents what I call the product of the Profit and Loss Account of the year. That is the fund which in an ordinary limited company one would call the dividend fund; it is a fund which a company has entirely at its own disposal; all its debts are paid; it has carried on its undertaking; that is the product of its activities and is at the disposal of, first of all, the directors who recommend the dividend, and ultimately really of the shareholders themselves. That is their money, and as the directors are, again, appointed by the shareholders the method of disposing of these funds is truly the method of the company itself. Now, it may, if is pleases—it would be improvident to do so—distribute up to the last penny and carry nothing to reserve. No company naturally does that, but the sum which stands at the credit of free reserve in the case of each company really consists of moneys which are the shareholders' own moneys which could be distributed if the directors and the shareholders so desired and so dictated; and when resort is had to those sums for the purpose of capital expenditure the company is in fact doing an operation which is very familiar indeed in joint stock company work, they are really capitalising some of their undistributed profits. You could, if you pleased, go through the circuity of handing the money to the shareholders; it is their money, and then in return asking the shareholders to lend it back to the company, or to take up stock, if you please, one way or another, and provide it as capital. Without that circuity what the companies do is that they have resort to these free reserves from time to time as the directors in pursuance of their policy consider necessary for the purpose of capital expenditure, and then when capital expenditure has reached a certain point and market conditions are favourable new capital is raised. The first point, therefore, I make in justification of carrying to this account (*b*) of the expenditure from free reserves is this, that that is a fund which the traders are truly not concerned with and are not entitled to object to its use in the manner indicated. It is a windfall in a sense to them as long as it happens to yield income and as long as that income is carried to other sources of revenue, but they have no right, as I submit, to complain if in pursuance of the policy of the company these free reserves are employed in the business of the company and are in effect capitalised because they could not complain if we had distributed every penny of it.

President: It is to be repaid, according to your idea?

Lord Advocate: When you raise the capital you restore the fund.

President: It is not exactly analogous, is it, to a distribution of profit?

Lord Advocate: But when you restore it to free reserve it is still available, or it is still shareholders' money.

President: You opened it. It is, you say, a temporary expedient until the capital is raised?

Lord Advocate: Until capital is raised, yes. But then the word I am analysing for the moment is "provided," and if we do not get this capital which we have provided in the manner indicated into compartment (*b*) that capital will never be remunerative, because the capital which we subsequently raise will not come into review under Section 59, because it will not be capital raised in respect of expenditure since the first day of January, 1913, down to the date of the fixing of the rates, because the capital that is brought into review under Section 59 is capital in respect of expenditure after you have concluded this Inquiry, and therefore unless it is remunerated here and now when the capital is subsequently raised to replace it that whole capital will necessarily fall out of account. I think that is it. Therefore, our submission is that the term "provided" here has been advisedly introduced into Section 58 (1) (*b*) for the very purpose of picking up that capital which under the frame of the Act would never receive remuneration when capital is subsequently raised, because you only in your revisal later on take cognisance of capital which is raised in respect of expenditure after the period of investigation. What happens, as I say, is that when you resort to free reserves and use that money temporarily for the purposes of capital expenditure, you are resorting legitimately to a source which is at the disposal of the company itself. It is money which is really outside the traders' concern, because the rates and charges have been exacted for the period. All the expenses have been met and this is the legitimate balance of profit and loss account, or part of it—the proportion which has not been distributed amongst the shareholders. Now that money, of course, embarked temporarily in the undertaking, one might next say is beginning to remunerate from the moment that it is expended. Again I have this answer to the trader: That assuming the capital so provided has been remuneratively employed—and it is a condition of its inclusion in paragraph (*a*) that it has been expended on remunerative works—then they cannot surely complain if they get in meal what they lose in malt, and if losing from other sources of revenue the interest of the free reserve while it remained intact, they now begin to get in the working of the railway a reflection of the remunerative expenditure which has been made from the free reserve.

So that all that has happened is this, that the money which, let us say, for the moment is invested in some dividend yielding investment is now invested in the company itself—*ex hypothesi* remuneratively invested in the company itself—and is there yielding, or ought to be yielding, a return, which return is carried to the credit of the trader in that account we are now compiling, because in that account is the remuneration which the capital is earning in the undertaking. The work which has been brought into existence by that expenditure must be remunerative work, and, *ex hypothesi*, is therefore now remunerating the undertaking and so reflecting itself in a contribution to the revenues of the company and so redounding ultimately to the benefit, not only of the company, but to the benefit also of the trader I would respectfully submit that we are really in this matter from that aspect not open to criticism by the trader. After all, the domestic administration of the company's affairs is by Parliament committed to the Directors of the Company, subject ultimately to the control of the shareholders, and the trader must to some extent necessarily—and this is a broad principle—follow the fortunes of the company.

Directors no doubt make mistakes like other people, and the mistakes which they make in the administration of their railways will adversely affect traders; they always will. If Directors always acted by heaven-born inspiration and never made a loss, then so much the better for the traders, because the revenues would be all the larger and therefore the rates and charges might be less. But the general policy is this. The direction of the railway is left to those in whose hands it has been left by Parliament, and the disposal of the capital for capital expenditure in the way indicated is an act of administration which they are perfectly entitled to do, and the trader is not entitled to dictate, if I may say so, to the company and say: "You shall not use your free reserves for capital expenditure purposes because we might be able to show that you have invested it in a work which is yielding a less return than if you had retained it in your free reserves." It seems to me that the only point I can make on this is that when invested in a work which would yield less than when retained in an investment, that is a kind of thing they cannot object to, because that is the result of the administration to which they, like we, are committed. Accordingly, when you come to examine the factors which are appropriate for inclusion in paragraph (*b*), our submission is that capital so used is entitled to remuneration under that paragraph. The statutory power of the Directors under Section 122 of the Companies Clauses Act of 1845 is just as I have described: "Before apportioning the profit to be divided"—note that we have got that length now. We have the funds available—the balance of profit and loss—"among the shareholders the directors may, if they think fit, set aside thereout such sum as they think proper to meet contingencies, or for enlarging, repairing or improving the works connected with the undertaking, or any part thereof, and may divide the balance only among the shareholders." It is a discretionary matter in the hands of the Directors how much they would divide and how much they would set apart for works. They set apart in pursuance of their powers funds out of profits to capital expenditure, and in that way they benefit the undertaking, because if they had to resort to the market for every relatively small sum of capital expenditure, the result would be certainly disadvantageous to the trader as well as to the company, because the money could not be raised on such favourable terms. Therefore we are dealing with railway policy and if it be conceded, as it must be conceded, that the works brought into existence by this capital expenditure must be such as to enhance the value of the undertaking, then once that is conceded why should the capital which has been expended, merely because it has been expended in this mode or derived from this source, be excluded from remuneration merely because it has been temporarily provided in this way? I think you will see at once the issue.

Now as regards the amounts which are included in our account, apart from (*b*), in respect of capital provided during the period in question as distinct from capital raised during the period in question, it so happens that, on a summation of the amounts provided, it appears that the total of free reserves available for capital expediture during the period under investigation in the case of two of the companies was more than sufficient to meet the capital expenditure so provided as we say. The London, Midland and Scottish Railway Company had throughout the period of investigation free reserves to an extent vastly more—I should not say vastly more, but at any rate largely in excess of the amount which they provided for capital works.

President: Have you got the total handy there of what you had available and what in fact you provided?

Lord Advocate: I am afraid I have not got it exact. The witness will tell you nearly exactly how the matter stands, but I can only for the moment put it broadly.

President: You say they had ample funds out of which to provide.

Lord Advocate: They had free reserves throughout this period in excess of the amount they are asking to take credit for as capital provided during the period. That puts it broadly. That applies to both the London, Midland and Scottish and the Southern Railway.

In the case of the Great Western Railway and the London and North Eastern, free reserves, were not quite sufficient to answer the items of capital provided for capital expenditure during the period under investigation. They were not quite sufficient.

President: Then what did they do? Did they have an overdraft?

Lord Advocate: I am just going to tell you, if I may. Apart from free reserves these are not the only internal resources of a railway company, as you are aware. The railway company has other funds which exist within its internal economy. In particular it has dedicated funds: it has superannuation funds: it has also savings bank deposits and pensions, and various funds of that sort which have been brought into existence under statutory sanction. Now these funds are accumulating funds, as you know. They are funded funds and the result is that these funds always have large sums at credit which they are in a position to invest.

President: How are they invested as a rule?

Lord Advocate: I think they are very often invested in the undertaking. Both courses are followed. To some extent investments are made outside, but my recollection is that there is statutory authority to invest them in the undertaking, and therefore they get a share of the profits of the undertaking. These allocated capital funds, I think, however, are to a large extent invested in the undertakings themselves under statutory authority. There you see also you have available an internal source of capital which you can utilize for the purposes if need be, of temporarily supplying capital for works without resort to the market; and in so far as free reserves are inadequate for the purpose of providing that capital, then resort may be had to those other earmarked funds, and the capital utilised for the time being in the creation of new work. Then when the capital is raised by resort to the market, the sum is restored to the fund and things are as they were.

There may be, and I can conceive that there is, room for an argument to this effect: that resort to those funds for capital purposes is different in financial character, so far as the traders are concerned, from resort to free reserves. When you resort to free reserves I should submit with emphasis that the course which we have pursued is perfectly fair and correct; but there is this difference with regard, say, to the capital funds at credit for superannuation. The superannuation fund ought to have a certain revenue. It must have a certain revenue, because that is the scheme of the fund—that it goes on receiving revenue year by year. Therefore those revenues which go to the superannuation fund each year are revenues which must continue. Revenue from free reserves is an adventitious thing; it is a thing which may or may not exist; it all depends upon the policy for the moment. But the maintenance of a superannuation fund is not a question of policy—whether the directors want to do it or do not want to do it; it is a statutory fund which must be kept up. Therefore it is in a different position in law, as I humbly conceive it, from the free reserves which are at their disposal. There is no obligation to keep up an income on free reserves, but there is an obligation to keep up an income on superannuation, because that is a fund which is established by Statute.

Therefore it may be said that the trader in that case, when you use that money for works, is damnified to the extent of the difference between the remuneration which that capital is yielding through the work which now represents it after the capital has been expended on the one hand, and, on the other hand, the revenue which it would have earned had

it been retained in the superannuation fund, because while it is in the superannuation fund it is yielding revenue, and that revenue is "other sources of revenue," and therefore goes in aid of the account from the trader's point of view.

Mr. Jepson: Is it really yielding revenue or is it not subject to payment out of revenue of interest, say, to the savings bank or to the superannuation fund?

Lord Advocate: It must have its income which comes from capital. Take the capital of the superannuation fund at £*x*. Then the revenue of the fund will consist of the yield on £*x*.

Mr. Jepson: As I understand it, the income for superannuation comes partly from deductions from the wages or the salaries of the staff and the contributions of the company. The fund is built up in that way. But there is a statutory obligation upon the railway companies to allow the fund so much interest, and that would naturally come out of the revenue, would it not? Therefore if that money is used for the purpose of providing capital temporarily, assuming it is to be remunerative, it is bringing something into the revenue which does not save payment of interest by the company, because the interest has to go on just the same.

Lord Advocate: It is the difference, if I may say so, between the yield of the money when it is in the shape of a capital work, and the yield of it when it is in the shape of money invested. You are perfectly correct, if I may respectfully say so, in saying that the sources of revenue are the contributions of the workmen and the contributions of the railway and the interest on the investment of its accumulated funds. We are dealing with the accumulated funds for the moment. They are existing there, and then the Statute tells you you may use these moneys in your undertaking. If you use these moneys in your undertaking then you are using them for capital purposes under paragraph (*b*). They are provided moneys—provided from your internal resources.

Mr. Jepson: That is quite clear; but when money is provided out of these accumulated funds of superannuation, of course that does not relieve the railway company, to the extent to which money is taken out of that temporarily for capital purposes, from payment of interest on the whole amount.

Lord Advocate: No. But if you can conceive of the superannuation fund as being by itself in the hands of trustees, then you can conceive of the railway company going to the trustees and saying: "It would be very convenient to us just now; have you any capital moneys at the moment?" The trustees of the superannuation fund might reply: "Yes; it so happens that an investment is maturing at the present moment and we shall have £50,000 next week." Then the directors might say; "Very good; we happen to want £50,000 just now for a capital investment. Will you let us have that?"

President: Do they say that they will pay for it at the same time?

Lord Advocate: Yes; they would have to.

Mr. Jepson: It is provided for in the Act?

Lord Advocate: Yes; that is, it is treated as an investment of the superannuation fund in the undertaking at remuneration. Therefore the directors would have to give to the superannuation trustees a return upon the £50,000 which would be reasonably equivalent to their having invested it outside. The fund must not suffer, of course, by the money having been invested in the undertaking.

There may be room for a differentiation in the case of capital provided in that way, but I would still submit that if, and in so far as, that capital was borrowed from superannuation—one might put it that way broadly—and that money is invested in remunerative capital work, which is the condition of its inclusion in paragraph (*b*), then the trader gets in the remuneration which that work earns a *quid pro quo* for the revenue from other sources which consisted of the produce of the investment of the accumulated funds so called.

Mr. Watson Collin: Might I raise a point here, in order that we may have it quite clear. I am speaking on behalf of Mr. Morrison, M.P. I understand the Lord Advocate to say that it is a condition under paragraph (*b*) that capital shall be invested in a remunerative way. Must it not be used to enhance the value of the undertaking?

President: I think it will be more convenient if we hear your criticism later; but we are glad to have it brought to the Lord Advocate's notice in case he cares to deal with it now.

Lord Advocate: I think, strictly, that is right. I was using "remuneration" in a large sense. Technically they are entitled to exclude it from paragraph (*b*) if they can say that it had not enhanced the value of the undertaking

President: I think that answers your question, Mr. Collin, does it not?

Mr. Watson Collin: Yes.

Lord Advocate: One of the real difficulties in this case is to preserve precise language throughout.

Mr. J. H. Worrall: Just as a matter of procedure, will you kindly say for the information of the laymen who are here to represent societies, whether we are entitled to ask questions.

President: Not, I think, at present. We will keep those for the witnesses. You see the Lord Advocate is now expounding the whole scheme, and I think it would be more convenient for us to hear him as a whole. He will then put a witness into the box who in detail will explain and verify everything that the Lord Advocate has said. It will be then your opportunity in cross-examination to ask questions of the witness.

Mr. J. H. Worrall: Thank you.

Lord Advocate: You have anticipated, Sir, what is the programme. I proposed to put an accountant into the witness box who will be able to answer all questions.

President: Perhaps I ought to have asked you first, but that is what I understood.

Lord Advocate: That is exactly what I intended to do. The witness will not only expound all I have said, but probably correct me if I have made slips.

President: I did not anticipate that.

Lord Advocate: The question then arises as to whether there is really any true grievance—that is what one is in search of, of course—whether, in the case of capital provided, in so far as capital is provided from those ear-marked funds, there is anything suffered by the traders in the ultimate account through that method of providing capital. That is really what one wants to test. The only point I, personally, can conceive on which he might be prejudiced would be in a difference between the yielding of the money when invested in a work and what it might have yielded if it had been retained in an investment. You will notice that the statute in this matter gives us no instruction and no direction. The statute is quite blunt in the matter. It simply says: Find out the capital expended. Then find out the capital raised or provided. We can tell you at once the capital raised and provided; that task is one of no difficulty. You will find figures given ultimately without any difficulty. We know how much we raised and we know how much we provided. Strictly, again, I do not think my task requires me to go beyond that. If the capital has been raised or provided, that is the end of the matter. Once it is raised then it comes in for its allowance. Once it stands as capital provided, the statute says nothing about what it is provided for; the only qualification is when it is provided. The capital is provided in any of the ways I have indicated, and being provided it comes in for its allowance.

It is because in the course of investigating these matters, and in the course of our informal discussions of the matters, that questions of equity have been raised as to an item of this sort that I find it necessary to investigate that field at all. Strictly speaking it is not for me to do so. All I have to ask is how much capital have I had to provide,

properly so called. But there is no use in closing one's eyes to the points which we know may be raised. With great submission, however, I would maintain on that point that it is not really open to a trader to say: "You happen to have provided this"—on free reserves I submit my answer is complete; but even in the case of its being provided from those other funds, the trader is not able to say it was not provided—at least I should be surprised if he says it is not provided. If so, what is it? Where does it come from? What category are you to put it into? How is it to be remunerated, or is it never to be remunerated at all? Is there to be a gap? We shall hear what the view upon that is, but my submission is is that once we have established it is provided our burden is discharged, and it is then for the trader to suggest that this particular portion of the capital in question which we have shown as provided is not provided in the sense of this section. It is difficult to see exactly the ratio upon which it could be excluded. I can conceive that when you come to exercise your discretionary power in making an allowance in respect of capital you might have to give consideration to such a matter; but at this stage I do not see how you can, because your instruction is once you have got the capital to find how much was raised in respect of it. Once we have demonstrated that a certain quantum of capital was raised and a certain quantum provided in respect of the capital expenditure, we have discharged the duty which the section puts upon us. It is one of the difficulties, which I think will appear more and more as this Inquiry proceeds, that the section which we are dealing with—a relatively short section as it is—does not pursue its instructions into any detail. It gives us a very general direction as to the compilation of those accounts and manifestly has not envisaged by anticipation the kind of questions which arise—the kind of question, for example, as to whether the expenditure was to be net or gross. Questions of that sort have not been envisaged at all, and they have only arisen as the parties have proceeded with their investigation and have come across points of that sort; and points of that sort which emerge again raise frequently counter-considerations of equity. There is always the easy method of taking the letter of the statute and going ahead. Primarily it would be the railway company's duty to do that alone and to leave to those who challenge the figures to introduce equitable considerations which they think ought to modify any particular case. But I do not disguise that we have considered criticisms which have been made really arising on the equities of the situation rather than upon the precise language of the statute, and one of them in this question of how you are to deal with funds which have been provided not from free reserves but provided from earmarked funds.

President: Perhaps you will answer my colleague who has a question which is passing through his mind.

Lord Advocate: Certainly.

Mr. Locket: I am rather struck by the difference in the wording of the two Sub-sections (*a*) and (*b*). (*a*) says: "A sum equal to 5 per cent. on capital expenditure." That of course is perfectly clear in itself. When we come to (*b*) we see a rather striking difference in the wording—"such allowance as may be necessary to remunerate adequately any additional capital which may have been raised or provided in respect of expenditure on capital account." It seems to me that it would have been simpler, if what you have been laying down is the correct definition, that the wording should have read: "such allowance as may be necessary to remunerate adequately any additional money expended on capital account." The difference in the wording sets us inquiring as to what is really meant by that section. I do not know whether you wish to found any argument on that. I thought it desirable to draw the President's attention to it while it was in my mind.

Lord Advocate: It is a curious distinction, but before we can qualify for an allowance under paragraph (*b*) we have not only to show that the expenditure has in fact been incurred on capital account, but we have to show that capital has been raised or provided in respect of the expenditure. That is why I was devoting so much attention to a critical analysis of the words "raised or provided," because the criterion of eligibility, if I may use that word, is the capital used or provided—not the expenditure.

Mr. Locket: But if I understand your argument up to the present correctly, it seems to point to the fact that we have to find that any money expended on capital account has to be remunerated; it does not matter how it may have been provided.

Lord Advocate: It must have been provided.

Mr. Locket: Yes. That difference in the wording is rather curious.

Sir Douglas Hogg: That is a point on which I shall have a good deal to say.

Mr. Locket: I thought possibly, Sir Douglas, you would be dealing with it, but I thought it was only right that the Lord Advocate should have an opportunity of dealing with that question while it was in my mind.

Lord Advocate: Frankly, I do not know what the precise views will be which will be taken in this matter. I shall have to deal with it in reply. For the moment I can only conceive, intelligently or unintelligently, what they will be. For the moment I am dealing with the principle on which the account is compiled. We have compiled it on the basis that when we have had to resort to the public for money for capital expenditure, that is simple—we have raised that. When, on the other hand, we have had resort to our free reserves or any other source for money, that is money we treat as provided. It will be for my learned friends, if they can, to expel from that compartment any money which has not been provided within the section.

But may I refer here to a practical point. There is in the actual working of the railway companies no such notional process as I have described, of resorting from time to time to particular funds for particular sums of money. I have created a more or less artificial description of the thing, but what really happens is this. You cannot allocate, for example, any portion of any raised capital to any particular expenditure; obviously you cannot. What you do is, you go to the public and you raise not £1,643,228 3s. 11d., or something of that sort; you go and raise a couple of millions, and you cannot say with regard to that capital which was raised in that way that any particular £1 of it is for one particular piece of capital expenditure, or not. Similarly, also, with regard to expenditure by monies provided. It is impossible to say what source any particular work has been provided from. That would be a perfectly impossible task for the railway company and no such record exists. The money is utilised as you go along, and there is no possible means whereby you can say: "That bridge was built out of money taken from the superannuation fund." It is never done in that way, of course, at all. The capital expenditure fund is replenished from the general fund of the company as you go along, and therefore it is quite impossible for us to say: "That viaduct represents so much taken from free reserves; that doubling of the line represents so much from superannuation funds, and so on." Capital is raised and capital is provided as you go along, and it is dealt with *en bloc*. Therefore it is quite impossible for us now to say with regard to any particular item of capital expenditure whence the money for it was derived—whether it was derived from raised money or whether it was derived from provided money. All we know is that we spent that money, and we also know, in total, that we raised so much and that we obtained from our other resources so much. That is the best we can do and we can do no more. There is no means of doing more. We have carried therefore to our account in compartment (*b*) the total of

the money so raised and so provided, and having got that we next have of course to consider the question of the adequate remuneration of that capital.

Mr. Jepson: Before you go to that I suppose that under (*a*) the claims of the railway companies would be in respect of capital which was raised, as well as in respect of capital which was provided, and no question would be raised by the Government under (*a*) from what source the capital expenditure came.

Lord Advocate: No distinction was made, but, as Mr. Locket points out, in that case capital expenditure was the criterion. The whole question was: How much did you spend on capital account? They did not go on to the niceties of the source from which the funds were obtained. All the Government were concerned with was this: What money have you spent on capital account? If you spend money on capital account we shall assume it was properly spent and you ought to have remuneration and we shall have to give you remuneration.

Mr. Locket: Then why was capital expended not referred to in (*b*)?

Lord Advocate: I do not know, to be quite frank. It is extraordinarily difficult to follow the ratio of it, and I do not know; but probably my learned friends will be able to deal with it better than I can. I cannot get at anything satisfactory to myself to explain it.

Sir Douglas Hogg: I hope to be able to offer an explanation, but it will not quite fit in with my learned friend's present claim.

Lord Advocate: I do not expect it would, but I shall listen to it with interest and possibly with approval if I find it satisfies me. But for the moment I must wait for my learned friend, because I cannot explain it. I am anxious to explain, however, how we have prepared our account, and I am anxious you should have such assistance as is possible as to how the account was compiled. I have made a certain number of excursuses as I have gone on, in regard to points on which controversy may arise, but at the end of the day you will have a picture before you, I hope, of how these accounts have been compiled.

The next question is, suppose we have the proper contents in compartment (*b*); then comes, if I may say so, your task. You are to consider what allowance is necessary to remunerate that figure, and naturally what one would expect to be the allowance would be the cost of raising the money. Adequate remuneration of capital is estimated for you by the public, because the public will not provide their money unless they get what the economic position at the time the money is raised represents in their opinion adequate remuneration. So that in a sense the adequate remuneration of capital raised is a matter really not so much for the railway companies as for the market. The question is: What does it cost to raise the money? The cost must be reflected in the remuneration which the money earns.

What we have done in this chapter of the case is to make the following submission: That you could not treat the whole of the capital as raised by means of debentures for instance. If you were to treat the whole capital as raised in one category, then you would be upsetting the balance of the railway companies' funds. Our submission is that you must treat the money as raised in reasonable proportions by debentures, by fresh issues of preference stock and by fresh issues of ordinary. If you do not do it in that way you would, of course, be affecting the value of the other stocks. If you over-create preferences then you depress ordinaries, and if you over-create debentures then you affect the financial balance of the company also. Therefore, what is done when the company raises money—which is a matter of discretion for the directors—it is raised in different categories in order that you may retain the relations of the different heads of capital in a reasonable balance, and we suggest that adequate remuneration is to be found on this basis of assuming that the capital which we have got here should be raised as to one-third in debentures at 5 per cent., as to one-third in preference shares at 5½ per cent., and as to one-third in ordinaries at 7½ per cent. The result is that our claim overhead is that the allowance necessary to remunerate adequately the capital which we have now got in this compartment is an allowance at the rate of 6 per cent. Evidence will be given to you as to the cost of raising capital and as to the money market position generally with regard to comparable undertakings. With that you will have the material upon which you may make the allowance necessary to remunerate the capital.

Now the figure which I come back to after this long excursus, is to be found in Folio 1 of each of the books, and is the figure in item 4—the addition to the aggregate net revenue. It is the addition to the aggregate net revenue of the allowance necessary to remunerate adequately additional capital raised or provided in respect of expenditure on capital account incurred since 1st January, 1913, and not included in item No. 3 above (as per Section 58 (1) (*b*)). Therefore, you will see the figures from the four companies represent 6 per cent. upon the capital raised or provided. We conceive it to be in respect of the capital expenditure, ascertained as I have explained it, of the four companies. In the case of the London, Midland and Scottish the claim is £237,548; the claim totalled for the four companies being £822,152. That is in respect of capital expenditure up to the end of 1923, and will of course require to be increased by the capital expenditure since then.

I may just point out in passing that in that account the capital expenditure for the constituent and subsidiary companies is taken in each case down to the termination of the existence of the company. Then after amalgamation the capital expenditure is the capital expenditure of the amalgamated companies. Of course the amalgamated companies were all in existence before the 31st December, 1923. It is derived from the accounts of all the companies ultimately absorbed down to the date of amalgamation. Then it becomes the expenditure for the one main company.

Now the figure is, as I say, open to criticism under the statute itself, apart from equities which are not disclosed in the statute, in this one possible respect. It will be open to my learned friends to show, if they can, that this expenditure which we have placed in compartment (*b*) has not enhanced the value of the undertaking. The phrase is a perfectly general phrase and is not one which is not very easy to interpret. The root idea I think is pretty plain, namely, that it must not be expenditure that has been thrown away; it must be expenditure which has in some way or other redounded to the benefit of the undertaking. If one remembers what is the goal of this Inquiry, namely, the fixing of charges which are to be charges made to the public, it would not be fair, I suppose, that they should be debited in account with having to raise revenue in respect of matters which do not represent beneficial expenditure—expenditure in some way or other enhancing the value of the undertaking. I suppose the words were introduced with that general equity in view, that if they could show that any expenditure did not enhance the value of the undertaking then there should be no debit to income account in respect of interest upon such unremunerative expenditure.

Various views may be taken of what enhancing the value of the undertaking means. Probably one of the most useful ways of expressing it for present purposes, would be that the expenditure is one which goes to the maintainability of the company's revenue. The maintainable revenue of an undertaking is a phrase with which one is quite familiar in valuing undertakings. The maintainability of the revenue of the railway companies is a matter in which the traders are interested as well as the railway companies, and any expenditure which tends to enable the company to maintain its revenue is certainly, as I should submit, expenditure which enhances the value of the undertaking. Let me illustrate from one or two practical cases which will leap

to the eye. Suppose, for example, expenditure has been made in doubling a line. You will not get immediately a return corresponding to the expenditure which you have made; but there can be little doubt that the doubling of that line enhances the value of the undertaking, because the undertaking then is an undertaking which is more fully equipped; it is a more efficient undertaking, and it has better earning powers. You will assume the railway company's directors would not have doubled that line unless they had done so in respect of the traffic on that line. They find, for example—this is the kind of problem they have to face—that there is congestion arising at a particular part of the line. Congestion arising means the impeding of traffic. The impeding of traffic reflects itself again in the revenues of the company. The traffic cannot get through a bottle-neck. The trade is diverted elsewhere, and so the result is that the board of directors has then to consider what they shall do, and they say: " The solution here is to double or quadruple "—as one knows happens in many cases, or even more—" the line." The expenditure having been made, traffic will flow more freely and traffic which may have been for the time being diverted will be re-attracted to that line. Therefore the expenditure will enhance the value of the undertaking because the undertaking has become in consequence of that expenditure a more efficient and a better revenue-earning undertaking.

Of course there are many other forms of expenditure which will go to the benefit of the undertaking. You may, for instance, short-circuit a route. You may build a bit of line across a semi-circle and in consequence be able to route your traffic more directly. Well, in a sense of course that may deplete traffic from the roundabout route, which then will serve only local traffic, but it will attract through traffic to the shorter route. But that expenditure is capital expenditure which makes the system more effective and ought ultimately to reflect itself in enhanced revenue. It is something which has been done for the benefit of the undertaking. The undertaking is thus a more valuable undertaking because the expenditure has resulted in the undertaking being a more efficient, and therefore a better, revenue-earning undertaking. It has better potentialities of earning; it is able to cater better for the public demand and it is therefore presumably in a position to earn better returns. All that class of expenditure which is made upon railway work in the ordinary case, I think one may assume, is expenditure undertaken with that object in view. Directors, of course, do not want to throw their money into the sea any more than anybody else does.

Sometimes you may get the benefit of your expenditure not so much in an actual increase of revenue as in a diminution of working expenses. You may get it the other way. But all these things, whether the result of the expenditure be to increase revenue or to diminish expenditure, in either way the undertaking is a better undertaking. Its value is enhanced in consequence of that expenditure, because as an instrument of learning it is an improved instrument for that purpose. Therefore, when one seeks about for some paraphrase of the words which the statute gives one, I do not know that one is really very much better with a paraphrase than one is with the words of the statute itself. It must just be, at the end of the day, the expenditure which has improved the undertaking, and it is to be assumed that the expenditure on works which a railway company makes in the ordinary case—unless it be something very improvident—has been directed to the goal of making their undertaking more efficient and of getting, what of course is the objective of all expenditure on works, a better and more maintainable revenue. Maintainability of earning capacity is, at the end of the day, the real criterion of the undertaking's value. It will be difficult, I rather imagine, for my learned friends to explain in what way the expenditure which you will find detailed in the explanatory schedules appended to this item, is not remunerative. We have given this in Schedule D. The total is on page 22, but the schedule begins at page 6. There you will find a description of all the works set out. It is for my friend to say with regard to any of those works that in his opinion, or in the opinion, rather, of his witnesses, that expenditure has not enhanced the value of the undertaking. You see all the different classes of things—the ordinary expenditure which a railway makes from time to time in pursuance of its policy of doing the best it can for its undertaking. There are pages and pages of them. They run from page 6 to page 22. You get the total of £237,548, being the figure which is carried to Folio 1 in the front of the account. That is 6 per cent. upon £3,959,131.

Now I come to the next compartment, which is compartment (*c*).

Mr. Jepson: May I ask you one question with regard to Schedule D: The heading is the words of the Act, I think. This does represent actual expenditure on capital account?

Lord Advocate: Yes.

Mr. Jepson: It is not necessarily capital raised or provided but not expended; but this shows the actual expenditure of such capital as has been raised or provided.

Lord Advocate: That is so.

Mr. Jepson: It is capital expenditure.

Lord Jepson: Yes, capital expenditure. It is not capital raised in anticipation of expenditure, but it is actual expenditure which has been made on capital account.

Mr. Jepson: The heading of the tables might mean that capital had been raised or provided on capital account but not actually expended.

Lord Advocate: We would not bring that into account, because it says that it is in respect of expenditure, and therefore it must be actual expenditure. We have exactly quoted at the heading the words of the section.

President: Subsequently, the witnesses will tell us how much was raised to meet this expenditure, and how much was provided, and from what sources.

Lord Advocate: The witness can tell you how much was raised *in toto*, and how much was provided, but he canont tell you from which source any particular item was taken. That is quite impossible.

President: These are items of expenditure.

Lord Advocate: Yes, but he cannot tell you, for example, taking the first item of £5,000 for work on the Broadfield and Castleton Widening, whether he took it from free reserves or where he took it from. He can only tell you that that amount of capital was in fact spent.

President: This is expenditure; and you are to have interest on capital raised or provided for expenditure.

Lord Advocate: Yes. He will tell you that in point of fact all this capital was either raised or provided.

President: That is the evidence that he will give to us.

Lord Advocate: Yes, Sir, that is right. Now, with your leave, I will go to compartment (*c*), which is the last of them that I have to deal with. This deals with expenditure on works existing before 1913; compartments (*a*) and (*b*) both dealt with expenditure since 1913, but in compartment (*c*) we deal with items of a different character. As I explained yesterday, the moment of time selected, and the critical date selected (namely, the beginning of the year 1913) naturally found the Railway Companies in the position of having made, prior to 1913, large capital expenditures which at that moment were not fully remunerative, and which therefore did not reflect themselves in the revenues of the Companies; they had potentialities of revenue, but had not come into full bearing at that time. In the ordinary course they would have come into bearing, and, as you are for the moment engaged first of all in stereotyping the aggregate net revenues for the year 1913, if you did not add something in the respect of compartment (*c*), the position would be this, that that capital which in the year 1913 was not making its contribution to revenue would never come into the

revenue-producing account for railway purposes at all; because the rates of charges to be fixed by you having relation to 1913 revenue, you must add to the 1913 revenue when you are now fixing the rates and charges in 1924, and you must have regard to the fact that in the ordinary course, in the interval, a capital expenditure which had not reflected itself adequately in the revenue would by this time be reflecting itself in the returns; and therefore you must take cognisance of those works which at the critical date had not become fully remunerative. There is a qualification upon this item: you are to disregard works below £25,000 in capital value. Therefore, our task was to make an historical investigation of our capital works prior to 1913 upon which £25,000 and more had been spent, that is to say, major works; that is the idea. You have not to bring into account small matters, but you are to bring into account all major works. They must, of course, be works the actual expenditure upon which is not in either of the preceding compartments, either compartment (*a*) or compartment (*b*), and therefore they are works which at this critical date had involved large capital expenditures (that is to say, expenditures over £25,000), for the return upon which the companies were looking forward to the very stretch of time which succeeded 1913. Now, here again the expression is, and the burden is with me this time to show that these works over £25,000 which we include are works which enhance the value of the undertaking; and no doubt the words must there receive the same interpretation as they would receive in the preceding paragraph. We have excluded a considerable number of items on the ground of their not complying with that requirement. We have excluded large sums of expenditure which were immediately remunerative; for example, expenditure upon locomotives and rolling-stock, which is as good in the first year, and perhaps better in the first year, than later on, and is immediately remunerative. That class of expenditure has been excluded. We have also excluded, for example, expenditure on a steamship furnished for an established route, an existing route which we were serving; if we bought a new steamer for that established route we have excluded that expenditure. We have also excluded capital expenditure which could not be described as directly remunerative, as, for example, expenditure upon improved signalling methods. But beyond applying that negative criticism to the exclusion, excluding a certain number of items, we have taken credit for a considerable series of works set out in Schedule E, on Folio 23 and the following folios, and which are there described, which are expenditures upon the undertaking, and which were embarked upon by the railway companies in pursuance of their policy of benefiting the undertaking.

Now, the problem that is presented by paragraph (*c*) is one of the most difficult problems which this scheme contains, because how are you to ascertain, with regard to a great multiplicity of works, the precise stage of remunerativeness which they had reached at a particular point of time? I do not think, with great respect, that anybody could do it, or at any rate; that anybody could do it within the compass of a human lifetime; because the consideration involved would mean this, that you would need to examine each work of any quantity (which would mean the examination of hundreds of works), and you would also need, I suppose, to analyse the accounts of the railway companies to find out precisely what amount of revenue that particular bit of work was at the moment contributing, and whether that was the most that would ever be got out of it, or how much more might be got out of it, and so on. I merely envisage the difficulties which would emerge. What we have done is to produce a formula. In the end of the day your determination of this figure must, I think, necessarily be to some extent arbitrary. You will judge, and the traders will consider, whether the formula which we propose is one which will on the whole work equitably. If there are any criticisms upon the formula we shall be glad to hear them, and if there is any rival formula proposed we shall be glad to have it; but I do not think that on either side of the bar we shall wish to embark upon an examination of every one of those works, and an analysis (or an attempted analysis) of the accounts, to deal with the exact stage of remunerativeness which each of these works had reached at the precise moment of time, even assuming that that enquiry were susceptible of being brought to bearing at all. The formula which we suggest (which is arbitrary, as all formulæ must be) is 15 years from the commencement of the yield of capital expenditure on a work; in short, if after 15 years it is not making its full contribution to railway revenue, it will never do so. That is over all, of course; some may take longer and others shorter; some quickly yield revenue and others yield it more slowly; but we have taken it, for the purpose of our calculation, that 15 years is the period, and we have assumed that the ultimate remuneration which at the end of the 15 years will be attained is 5 per cent. Next we have spread the growth from nothing to 5 per cent. over the 15 years, and we have assumed that in the first year the capital expenditure will yield $1\frac{1}{2}$ per cent., and that its remunerativeness will increase by half-yearly increments of $\frac{1}{8}$ per cent. or $\frac{1}{4}$ per cent. per annum, with the result that year by year the yield will be rising until it has reached, at the conclusion of the fifteenth year, the maximum yield of 5 per cent. We have then dealt with all the works which you will find in Schedule E, which are all works representing over £25,000 in capital expenditure. We have taken the dates of the expenditure, and we have in each instance applied our critical year—the point of time I think is in fact the 1st January, 1913—and we have said: "Now how many years has that work been in existence?" No work which has been in existence for 15 years is brought into account at all, as you can see, because the hypothesis is that at the 1st January, 1913, all works of an earlier date than 15 years before 1st January, 1913, are fully remunerative. Whether they are so in fact or not I should doubt very much; but that is the effect of taking a formula, and we shall discard for the purpose of this formula all works that are more than 15 years old. Then in the case of a work which was, say, 14 years old on the 1st January, 1913, it would still have one year to go, as you will see, according to this formula, before it reached its maximum yield of 5 per cent., and therefore for that year we should take credit for one-fourth of 1 per cent., because its fifteenth year would be the only year brought into this account. On the other hand, in the case of a work which just came into existence in 1912, the year before the 1st January, 1913, that work will be credited with $1\frac{1}{2}$ per cent. It is supposed that the first year gets a little bit of impetus, as it is its first start; and the process after that goes on by these slow and comparatively small annual increments until it reaches 5 per cent. We have applied that formula to all the works; but all works more than 15 years old are eliminated, and all works less than 15 years of age on 1st January, 1913, are contained in Schedule E, after eliminating those which have not been brought into account at all. Then the date of each of them is taken, its age at the 1st January, 1913, is ascertained, and credit is taken for the percentage attributable to that period of its existence at the 1st January, 1913, and onwards until it has reached 15 years of age.

That is the formula which we have suggested and submitted for criticism to our friends on the other side. It is, of course, arbitrary, but nothing but an arbitrary formula can solve this problem. The result of the application of that formula to the items which are set out in Schedule E is to be found in item 5, on Folio 1, and it represents a total of $1\frac{1}{2}$ million pounds, of which the London, Midland and Scottish Company's claim is half a million. That is the sum which we claim as a reasonable allowance in respect of the capital expenditure enhancing the value of our

undertaking, which had not, at the 1st January, 1913, become fully remunerative.

Now, Sir, I have come to the end of that account, and I have explained to you the mode of its compilation. The last item, which is marked "Not yet ascertained ", it has been agreed to defer in the meantime; that is to say, the allowance in respect of economies, of which we are to get, for our encouragement, an amount not exceeding $33\frac{1}{3}$ per cent. But the parties are agreed, and I understand it is agreeable to the Tribunal, that we shall submit this account down to item 5 for present scrutiny, in order that the method of compilation which we have adopted may be examined, and the questions of principle which have emerged in the course of my exposition of this method may be investigated by the Tribunal and their decision upon them obtained. I think you will agree that the method of opening this case has been useful in this sense, that it has shown exactly the points upon which there may emerge questions of controversy. I have endeavoured to do that, and I rather think that as cross-examination of the witnesses proceeds, with the help of my learned friend Sir Douglas —whose aid I do invoke in this matter—we may be able to formulate the real questions which are, so to speak, embedded in these concrete figures, in such a way as to help the Tribunal to give us the decisions that we desire to have at the different stages of the case. With those decisions in hand, I take it that it will not be difficult to reflect them in such corrections as it may be necessary to make.

I do not think I should sit down without saying a word about certain observations of the Ministry of Transport. Our figures are now before you, and are open to investigation and criticism. The Minister of Transport has, as a neutral critic, made various observations which are contained in three papers before you. His task, as I gather from his memorandum, has been rather to bring to the surface the points upon which a decision may be necessary, rather than to pre-judge in any way what that decision shall be; and many of the points which he has taken have already been the subject of exposition by myself. I think it may be useful for you now to see the Minister's observations upon the accounts, and, if you will be good enough to take in your hand first of all document F. 4885, which is entitled " Memorandum Explanatory of the Statutory Form of Railway Accounts in its Relation to Section 58 of the Railways Act, 1921," you will see that the Minister there, in the second paragraph, places his memorandum before the Tribunal as a memorandum explanatory of the statutory form of railway accounts, and the bearing of that form upon Section 58. I had already read the first paragraph regarding the statutory form of railway accounts, and I think you may pass over several pages where the Minister merely tells you the contents of the statutory accounts, and what you will find in them. That is merely descriptive. Then he quotes, at the foot of page 4, the learned President's description of the difference between items above and below the line; and I do not think that one really arrives at anything beyond exposition of the accounts until one arrives at page 8. The Minister there informs the Tribunal that he proposes to have the published accounts for the year 1913 aggregated for each amalgamated company, and that a summary statement is in course of compilation. Then he says: "It has been necessary to re-shape the accounts of the non-working companies to which the Act of 1911 did not apply, but, subject to this minor adjustment, the summary to be submitted will show, under the statutory headings, the aggregate figures for the year 1913 taken from the published accounts of all the companies forming the amalgamated company." I have really dealt with the question of the interpretation of the annual net revenue and the various views upon it, which he summarises on pages 10 and 11, and I have pointed out that we prefer No. 4 as the proper method; and you will find, indeed, that he gives reasons why some of the other methods proposed would not be suitable. So far as one can judge, he has no objection to the selection of the fourth method, which is the only method that we advocate. I have read what is said in paragraph (*b*), but I did not read, with regard to paragraph (*b*), a sentence on page 14 which is important. You will remember that when I was reading about Section 58 (1) (*b*) I stopped at a particular point, and I said that I would read the latter part of it afterwards. First of all, he had dealt with the question of the credits, which I discussed, and then he goes on to another point, and he says " Under Section 58 (1) (*b*) the allowance is not claimable upon capital expenditure but upon additional capital raised or provided in respect of capital expenditure "—so that Mr. Locket will observe that the Minister was fully alive to the distinction also. " If capital expenditure has been met by the use of surplus funds, savings bank deposits, bank overdrafts, temporary loans, etc., the net income below the line is depleted by the interest on the amounts withdrawn or borrowed "—that is what I explained. " It follows, therefore, that, if this method of ascertaining the standard were adopted, expenditure on Capital Account unaccompanied by Capital Issues or other Capital Receipts is an alteration in the use of surplus funds and it becomes a matter for consideration whether allowance is justified as in the case of capital expenditure met by Capital Issues, and if so, what allowance. The Tribunal are required by the Act to allow adequate remuneration, and they will no doubt take this aspect of the question into account in considering what is adequate. The question may be to some extent interlocked with the proviso that no allowance is to be made where the value of the undertaking can be shown not to have been enhanced. It will doubtless be considered whether the 'value of the undertaking' includes the reserves and whether the temporary use for Capital purposes of a reserve provided for the future working of the undertaking, or expenditure upon Capital account of money borrowed at the expense of the Net Income of the undertaking, is an enhancement of its value. The temporary use of undivided profits for Capital purposes appears to require separate consideration, as also does the treatment of the income earned by such undivided profits. The further allowances in respect of Capital not fully remunerative in 1913 and for economies effected by steps already taken, will no doubt be the subject of separate claims, and the Ministry will be prepared, if the Tribunal so wish, to examine and report to them on the basis of such claims." You will see that he has done no more than really draw attention to the problems which I have at much greater length explained to you. He says that they are matters for consideration, and he does not pre-judge them. Then the Minister furnished another document in continuation of that document in which he deals with certain matters of detail. I do not propose to spend much time over them because they are really relatively small topics, and I am very anxious not to confuse the main line of our case by overlaying it with too much detail. He does, however, draw attention to a number of matters there, and, if I may, I will go rapidly through them. The document in question is F.5210, and it is entitled " Memorandum on Annual Net Revenue for the Year 1913, in Continuation of Memorandum F.4885, of 27th March, 1923." It says this: " In May, 1923, the Minister of Transport submitted to the Railway Rates Tribunal a summary of the Financial Accounts, etc., for the year 1913 of the railway companies constituting each of the four amalgamated companies. (2) These figures have now been compared with the statements of the railway companies showing the amounts claimed as annual net revenue for the year 1913 for the purposes of Section 58 (1) of the Railways Act, 1921. (3) In the attached schedules, I, II, III and IV, the companies' claims are reconciled with the figures contained in the Ministry's summary figures, and the following general observations are submitted for the information of the Tribunal." Now, this statement, or this series of schedules, which are appended to F.5210, shows a reconciliation between

our summation of the aggregate net revenues of the companies and the figures which the Minister has independently reached. Let us take the first schedule and just look at it for a moment. It is a very simple one, and it relates to the Southern Railway. You will find that the only thing that had to be done to reconcile the Minister's figure with the companies' figure was to read in the £20,000 in respect of the mails contract, and when that was done the Minister and we were found to be completely reconciled arithmetically. Similarly with regard to the other schedules of the other companies. Take, for instance, the London, Midland and Scottish Company, if you wish to have that as an example. The writing in of the 4 per cent. was the important thing, and there were one or two small items: there was the Cathcart District Railway, which seems to be always a source of trouble in our accounts; but apart from that, the reconciliation really only relates to items to which I have already alluded. Therefore, we may be said to be practically at one. The Minister then goes on to raise one or two general points, and he says: "The following general observations are submitted for the information of the Tribunal: (*a*) It has not been considered necessary at this stage to draw attention to differences in method affecting particular items, but not the total of the amount claimed by a railway company, but it is for consideration whether, when the amounts of Annual Net Revenue are determined, statements in the full statutory detail should not be required to be lodged with the Tribunal in order that comparison between the accounts of future years and those for the standard year may the more conveniently be made." We are quite prepared, if necessary, after the Inquiry is over, to arrange the items in such a way as to enable the comparison to be made; there will be no difficulty about that; but in the present analysis we have frequently set out items which the Minister would have put in as a balance, but we have given both the items so that you may see the whole transaction; we have given in respect of one item, an item of credit appearing in one schedule and an item of debit in another, and the ultimate balance is carried to account. It is more desirous to do that at this stage, so that you may see all the accounts in their analytical form, although at the end of the day, for the purposes of comparison, it might be desirable to re-shape it; and so far as it is desired by the Minister, I am told that we are quite prepared to do it. Then the memorandum goes on: "(*b*) The companies' claims are compiled on the basis indicated in method IV described on page 11 of the Minister's Memorandum F. 4885, including all joint lines, with an addition in the case of the Southern Railway in respect of conveyance of mails and in the case of each of the other groups in respect of the Suspense Accounts for the increase in goods rates in 1913"—that is the 4 per cent. "The facts in respect of these additions are set out in the Notes to Schedules"—no comment arises there. Then: "(*c*) Upon each schedule there is shown the actual appropriation of the amount claimed as Net Revenue to Dividends, Reserves, etc. Under the heading 'General Reserve Funds' there have been merged all transfers described in the railway companies' accounts as 'General Reserve,' 'General Reserve Fund,' 'Reserve Fund,' 'Reserve Account,' or 'Reserve,' but each other amount is separately described. It is for consideration whether for the purpose of determining Standard Revenue all the latter items can be regarded as appropriations of the Net Revenue or whether certain items should not be treated as part of the expenditure incurred in earning such net revenue in the same manner as the provisions shown in the expenditure accounts. If these amounts are treated as appropriations of the Net Revenue of 1913, it will then be for consideration what steps are necessary to obviate the possibility of similar provisions being claimed as expenditure in other years." That is quite a simple matter, although it looks a little complicated. It really arises on the London and North Eastern accounts, and if you will take the London and North Eastern book, which is the yellow book, and if you will look at the accounts of the North Eastern Railway on page 6, it will show you what the Minister has in mind. Account No. 9, which is the second account on that page, is entitled "Proposed appropriation of net income," and you will see, about the middle of the compartment: "Appropriation to Reserve and other Special Purposes; Reserve for Pensions, £50,000; General Reserve Fund, £50,000; Suspense Account—Renewals and Contingencies, £50,000; Reserve for Revenue Charges in respect of Electric Equipment of Lines, £150,000." That comes to £300,000 in all; and the Minister's query is: Ought that £300,000 to have been treated as an item of expenditure prior to the ascertainment of net income, or is it an appropriation of net income? The Railway Company treats it in this account as an appropriation of net income, and not as an expenditure to earn income. From the traders' point of view, of course, it would be preferable if it were treated as an expenditure to earn revenue. The explanation of these items, as you will hear later, is quite simple. These items were not appropriations in respect of existing obligations; they would not have formed proper debits against the revenue of that year, because in that year there was no obligation to find any such sums as are there set out; and therefore it was not one of those cases where you put in your balance sheet for the year, as you ought to do (for example) a sum to meet obligations which are obligations then matured but not met, but which are obligations of the year. What the North Eastern Company did, and what some of the other companies did not do, was to allocate these reserve funds in this form; it was nothing more than a separation-out of the General Reserve Fund into items, not because there was under each of those heads an accrued liability of the amount shown, but merely as a rough reserve for each of those items. If, instead of doing it in the way that is shown there, they had carried the total sum of £300,000 to general reserve, no question would have arisen. The mere circumstance that the directors, instead of calling it general reserve, selected certain items and put so much to each of those items—not because each of those was a debit, or had incurred obligations to that amount, but simply because it would be at some time a contingent fund for each of those items—does not, I submit, mean that in the accounts for that year it would have been proper to have debited revenue (for example) with £50,000 for pensions, or £50,000 for general reserve, or £50,000 for the other item, or £150,000 for electrical equipment. These were not then current obligations, and the circumstance that they have detailed their general reserve in that way should not, as we submit, prejudice the company. As I say, if the whole sum had been carried to general reserve, no question would have been raised at all, and the reserves would have been treated in the case of this company as in the case of other companies. I may perhaps make an observation on the last item, which is the largest, the £150,000. That arose in connection with the electrification of the coal line from Shelden in Durham to Newport near Middlesbrough. The electrification of that coal line was an experiment, and the directors labelled £150,000 of their reserve for that experiment; but it was not liability in respect of that experiment, because all the capital expenditure in respect of that electrical equipment of that stretch of line had already been incurred and met. The line was equipped, but they said: "This is an experimental thing, and we will, for the time being, earmark £150,000 of our general reserve in case the experiment turns out a failure"; but it was not a debit to revenue of that year, and ought not to be debited to revenue of that year. In short, they did nothing more than carry out the instruction which the Companies Clauses Act, Section 122, conveyed to them, namely that they should set aside out of the profits such sum as they should think proper to meet contingencies, and they thought this experimental electrification of this coal

line was a contingency for which it might be well to set aside a sum. Therefore we submit that the answer to the Minister's observation is that these items find their place appropriately in the London and North Eastern accounts as an appropriation of net income, and would be inappropriately debited to the revenue of that company.

"Certain questions"—proceeds the Minister—"arose out of the reconciliation of the Ministry's figures with those of the companies other than those of ordinary detail, namely:—Southern Railway. (I) Note 2 (b). The company pointed out that 'General Interest' included a sum of £6,281 in respect of dividends received from other companies in the group. This involved a duplication of Net Income which the Ministry had been unable to eliminate as it was not apparent from the printed accounts and the necessary correction has now been made." There is nothing in that; all it amounts to is that certain adjustments had to be made to put the Southern Railway's claim on a proper basis, and these have been made. I am not going to trouble you with the details, because I do not think any question will be raised about them. Then "Note 3 (a). It was ascertained that Rent Charges included a sum of £41,000 in respect of South Eastern annuities which were a Capital Receipt. This security was on amalgamation converted into stock of the Southern Railway Company involving the same annual charge, and in the accounts of that Company the interest (£41,000) on the converted stock will appear as interest and Dividends. While it might be held to be technically incorrect to amend the 1913 account as has been done by transferring this amount to Interest and Dividends in that year, the correction makes the 1913 accounts strictly comparable with those of a future year." We respectfully think that it would not be technically incorrect to do what we have done, and we submit that this amount was a dividend for 1913. If you desire any evidence upon it, it can be given. "Great Western Railway. A sum of £3,476 was eliminated from the Ministry's aggregation of Interest on Investments in respect of duplications arising out of investments in other Companies now in the group. These duplications were not cancelled on amalgamation and the elimination has now been reversed, the case being the converse of that mentioned in (i) above. The correction appears to be necessary as the income from the stocks held by the company will fall into Net Revenue but if at a later date the company were to cancel or dispose of this stock, which is now Great Western Railway stocck, it may be necessary to consider the bearing of the transaction on Standard Revenue." That is the point I discussed at such length yesterday, with regard to the cancellation of domestic investments. May I take the opportunity of correcting a slip I made when I said that the Great Western Railway Company's domestic investments amounted to £1,800,000. In point of fact the £1,800,000 represented all the investments of the Great Western Railway, including investments in Fishguard and Rosslare and others; and only to the extent of less than £100,000 represented investments which were available for cancellation but were not actually cancelled. I had given you the total figure of all their investments.

Sir Douglas Hogg: It is their total investments in their own stocks?

Lord Advocate: Total investments in the stocks of the companies which were absorbed in the Great Western. That is under £100,000—about £76,000, I understand, was the precise figure. I was misled when I gave the figure of £1,800,000, and that figure rather surprised me by their magnitude.

President: It rather surprised us, too.

Lord Advocate: Yes; it was a slip. "An alternative method would be to reduce the 1913 net revenue by this amount and to eliminate the future dividends from net income for purposes of standard revenue. It does not appear to be material which method is adopted provided it is consistently followed. (IV) Note 2 (b). A sum of £18,693 was included in the Ministry's aggregation under general interest in respect of interest on loans not credited to capital account. On amalgamation stocks were issued in redemption of these loans, and the £18,693 has now been transferred to interest and dividends. The effect of the transaction is analogous to that mentioned in (II) above." In that case, if you wish a reference—this is the Cardiff Railway Company, really—the Cardiff Railway's accounts are to be found in the Great Western volume, and the particular item is at page 58; and the item in question is a sum of £445,200, which is under the heading "Loans," if I remember rightly. It is merely a question of a transfer of an entry from one category to another. "Note 3 (a). A sum of £40,117 was included in the Ministry's aggregation as Interest and Dividends in respect of Interest paid to stockholders of lines vested in the Great Western Railway which stocks were not technically stocks of the Great Western Railway. This has now been transferred to 'Rent of and guaranteed interest of leased and worked lines.' The stocks continue to be separate and provided the Interest is dealt with on similar lines in future years there is no difference in effect whichever method is adopted." This is really, I think, the West Cornwall Railway. The West Cornwall Railway has long been vested in the Great Western, and the revenue of the West Cornwall Railway is included in the figure of £390,893, which you will find in column 8 of the Great Western's adjustment book, R. T. 4a. "London, Midland and Scottish Railway. Note 2 (a). This refers to a correction of an apparent duplication of £620, and the circumstances are the same as in the case referred to in (III) above." It is a compliment to the accuracy of the investigation made by the Ministry, but £620 would have no effect whatever, practically speaking, on the fixing of rates and charges.

Sir Douglas Hogg: We need not take up time about that.

Lord Advocate: I do not think we shall quarrel about it. "London and North Eastern Railway. Note 2 (a). The South Yorkshire Junction Company being a non-working Company, did not compile its accounts in the ordinary form, and in re-allocating them a provision of £2,113 for differences in rates, etc., was included in Ministry's aggregation as an appropriation to Reserve. This sum has now been treated as a reduction of the Revenue of the year 1913." It was, in fact, a payment made by the South Yorkshire Company in respect of certain colliery traffic, and that has been duly dealt with.

It is right that I should point out, I think, that the Minister's second document—that is to say, F. 5210—deals only with annual net revenue for the year 1913 in continuation of the previous memorandum, and it does not, as his first memorandum did, deal with the items in compartments (a), (b) and (c). It does not relate to capital expenditure, whereas the first one did deal with that topic.

President: I think we followed that, and I am sure we all feel much indebted for the care with which the Minister has gone into the figures.

Lord Advocate: It has certainly been useful in showing points that are proper for consideration by both parties, and, indeed, by the Tribunal.

Now, Sir, I have discharged the task upon which I embarked, of explaining to you how this table, showing the accounts of the London, Midland and Scottish Railway, which is really our case, has been brought into existence. I have explained to you the method upon which it has been compiled; I have explained to you the decisions which had to be taken step by step at different points as partings of the way were encountered. We had, of course, in preparing our case to take one or other of the two ways when we came to a parting; I have explained to you which route we have followed in each instance, and have explained how this ultimate result has been brought about, the method which has been pursued, and the decisions which had to be reached *en route* on each of those points upon which, it was

obvious, there might be room for controversy. We have, now, I suppose, to retrace our steps and examine whether the route which we took at each of those parting points is the right way. You will show us the way; you will set up the sign-posts which shall direct us in the matter. No doubt my friend and I will part company on the way; but perhaps we may meet again at the ultimate goal.

Sir Douglas Hogg: We shall be farther apart than ever when we get there.

Lord Advocate: It may be that you will come across country now and again, and rejoin me. I hope you will; but that is as it may be.

That is the outline of the case, Sir. I am afraid it has been impossible to make the opening of such a case as this attractive; but I shall be content if I have been moderately accurate and reasonably intelligible.

President: I think, possibly, you might like to adjourn at this moment, and re-assemble at 10 minutes to 2.

(*After a short adjournment.*)

Sir Douglas Hogg: Might I mention one matter which I have been asked to mention? I told the Tribunal yesterday that I appeared besides the Co-ordinating Committee and the National Association of Railway Travellers for a number of local authorities. I understand that some of the local authorities have been told that they will be shown as being represented, and on the Note as printed at present there is merely a statement that I represent various local authorities. It is felt that some of these local authorities might resent that. Perhaps if the names of the local authorities could appear on the Note it would gratify them and do no harm to the Inquiry.

President: Your numerous constituents number about 1,500.

Sir Douglas Hogg: The Co-ordinating Committee and the Association of Railway Travellers are quite content to appear in that form, and some of the local authorities rather like to have their names appearing.

President: Certainly. That can be done easily.

Sir Douglas Hogg: Thank you, Sir.

Mr. JOHN QUIRIEY, sworn.

Examined by Mr. CLAUSON.

1. I think you are the Joint Accountant of the London, Midland and Scottish Railway Company, and prior to the constitution of that company as an amalgamated company you were for many years with the Midland Railway Company as Assistant Accountant, and ultimately as Principal Accountant?—That is so.

2. I think I am right in saying that for the purposes of this case the Railway Accountants formed a committee so as to co-ordinate the position, and I think you have been deputed by the Railway Accountants' Committee to supervise the preparation of the statements of the four amalgamated companies?—Yes, that is so.

3. And, accordingly, it will be your province to give what I might call general evidence as to the manner in which all the four groups have prepared their accounts, and you will be in a position to deal with details as regards the London, Midland and Scottish Railway Company and probably, if convenient, to get the details as to the other companies from the Accountants of the other companies in due course?—Yes.

Lord Advocate: May I have permission to resume with the witness, Sir

President: Yes.

Lord Advocate: I am obliged to you, Sir.

Examination continued by LORD ADVOCATE.

4. You are in a position to describe to the Tribunal the contents of the various documents which have been laid before them?—Yes.

5. Of course, your evidence in detail will be confined to your particular company, the London, Midland and Scottish?—Yes, I deal with the details of the London, Midland and Scottish Railway Company alone.

6. But I think you are in a position to deal with the principles which have been adopted in common by the four amalgamated companies?—That is so.

7. And, therefore, you are in a position to explain to the Tribunal the system upon which the four companies have proceeded in the compilation of their figures, leaving over any specialities applicable to each company to witnesses who will be called after you?—Yes.

8. You are dealing with the London, Midland and Scottish?—That is so

9. Shall we first of all take what we have called Exhibit "R.T.2a"? You may recall that the Tribunal have got them all marked now in conformity with our notation.

Sir Douglas Hogg: It is "R.T.3a," is it not?

10. *Lord Advocate*: You have, first of all, "R.T.2a," which relates to the London and North Eastern Company; "R.T.3a," which relates to the London, Midland and Scottish Company; "R.T.4a," which relates to the Great Western Railway; and "R.T.5a," which relates to the South Railway?—That is so.

11. Do each of these exhibits share in common their first folio?—The first folio is the same in each case.

12. And the first folio contains the general position for the four amalgamated companies bringing out the results of the calculations applicable to each individual company?—Yes, Items Nos. 1 to 5.

13. And then each of the four books in turn provide the details applicable to the particular company with which it deals?—That is so.

14. Taking your own in hand for the moment, which is "R.T. 3*a*," your company's figures are shown in heavy-leaded type. Similarly in each of the other volumes the particular company's accounts are dealt with in the same type?—That is so.

15. For the purposes of the present Inquiry, have you restricted yourself to Items 1 to 5 that appear in folio 1 of all the four exhibits?—That is so.

16. And the figures there set out, when an addition has been made in respect of the allowance under economies, will provide the standard revenue which is the objective of this stage of the Inquiry?—That is so.

17. Do the items in question fall into two main divisions?—Yes, the aggregate net revenues and the allowances in respect of capital.

18. The first category involves an inquiry into an historical matter, namely, what was the net revenue of each of the companies ultimately amalgamated or absorbed, and the income of each of the constituent and absorbed companies in the year 1913?—That is so.

19. It deals solely, therefore, with the ascertainment of a revenue figure?—With the net revenue figure.

20. Whereas the other group relates to capital expenditure?—Yes, and the allowance claimed upon it.

21. Will you explain the structure of folio No. 1 which is common to the four exhibits? Just explain shortly to the Tribunal how it has been compiled,

running through the columns?—Item No. 1 is the total net income of the year 1913 as per Account No. 8, with certain adjustments made. Item No. 2 consists of the interest, rentals and other fixed charges according to Account No. 9, omitting charges for interest on loans, debenture stock, rent charge stock and other similar stocks, leaving for the No. 9 item charges against revenue for the purpose of earning the net revenue. Item No. 1 less Item No. 2 gives the aggregate net revenues in 1913 of the constituent and subsidiary companies. The third item consists of the claim under Section 58 (1) (*a*) for an allowance upon the capital expenditure which formed the basis of our claims against the Government on the 15th August, 1921. The fourth item is the allowance necessary to remunerate adequately additional capital raised or provided in respect of expenditure on capital accounts since the 1st of January, 1913, which is not included in the claim under Section 58 (1) (*a*). The fifth item is the allowance in respect of unfructified capital expenditure at the 1st of Janury, 1913.

22. I direct attention to the last two columns of folio 1. Do you there indicate where the details are to be found?—Yes.

23. You have quite a series of schedules, have not you, which are lettered A, B, C, D and E, and these schedules contain the particulars from which the totals are carried to this folio 1?—That is so.

24. And the folios marked against these different lettered schedules will show the page at which the details will be found?—That is so.

25. Now, before we proceed to an examination of the particular items in your folio 1, may we just remind the Tribunal of what further steps will have to be taken before they reach the stage of ascertaining the annual gross revenue which will have to be raised by the charges which are ultimately to be fixed? You see what I mean?—Yes.

26. After you have got your first five items according to folio 1 and then have put in the figure for the sixth item when ascertained, will you then add back an item for interest, rental and other fixed charges other than interest on debenture stock, the figure this time being the figure for the particular year, and not the figure for 1913?—The figure for the future year.

27. The figure for the future year; that will have to be added back as being a sum which will require to be yielded, of course, by the rates which are to be fixed?—Yes.

28. Then, having got that, you will get the total annual net revenue, will not you?—We would get the future annual net income as per No. 8 Account.

29. Yes, I agree. Then you would have to add, would not you, to that figure the total railway expenditure which would have to be incurred in order to earn that figure?—Yes, the estimated railway expenditure for the future year.

30. And just envisaging the further stage, the use to be made of this account and the things such as you will then have to estimate the total expenditure necessary to earn that figure, and then you will deduct from the total figure so arrived at the yield of other sources of revenue, sources of revenue, in short, other than those derived from rates and charges?—Yes, the ancillary business and the miscellaneous receipts in Account No. 8, and the miscellaneous receipts in Account No. 10.

31. When you have deducted that figure, will you reach the figure of the annual gross revenue to be raised by the charges to be fixed?—I have described one year's gross receipts from railway working to be raised by the charges to be fixed.

32. So that you see the place in the general programme which the present stage of the Inquiry takes, and you have indicated the further stages that will need to be carried out before the Tribunal reaches the final task of setting the charges?—Fixing the rates and charges.

33. Now, having explained the structure of your summary on folio 1, you direct attention to the series of schedules in which the details are to be found set out?—That is so.

34. I think that they have probably been sufficiently described, and the only one which I propose to ask you to devote a moment or two is the receipts in respect of "J" Joint Lines, which you will find in Schedule F. I am coming back, of course, to the adjustments, but I want you for the moment to tell us about the "J" Joint Lines at page 36, because they come into the first item?—The amounts appearing in Schedule F for "J" Joint Lines are the net receipts other than in respect of railway working. The total amount is brought into No. 8 Account in each case, and this schedule has been prepared for the purpose of allocating the total amongst the various headings on No. 8 Account. The first entry, for example, on page 36, the Manchester South Junction Line, £3,673, is the total net receipts accruing to the London and North Western Company out of that line other than in respect of railway working; and by an examination of the accounts of the joint line we find that that £3,673 is made up of three items: rents from houses and lands, £1,761; other rents, £1,308; general interest, £604.

35. May I take it that that figure of £3,673 in this instance forms part of the revenue of one of the constituent companies?—It forms part of the revenue for the London and North Western Company, a constituent company.

36. Exactly; and in the year 1913 was an ingredient, or factor, in their Account No. 8.—That is so. It is part of the sum on Schedule A, page 2, of £7,108 in column 15.

37. As you explain there, the figures from the Joint Lines "J," receipts other than in respect of railway working come into the total receipts of the London and North Western in this particular case?—Yes, the top line on page 2.

38. *Mr. Jepson*: Part of that £7,108?—That is so. It appears as one item in the No. 8 Account, but it consists of a number of items that can be allocated over the other headings.

39. Naturally a question arises on this. Both these figures are exclusive of railway working?—The London and North Western proportion to the railway working receipts in that line is included also in Column 2. That comes into Account No. 10 as you can trace from the large volume.

40. The point I had in mind was this. In Schedule F you have only dealt with £3,673 of the £7,108 shown in column 15 on page 2?—Yes, while the balance would consist of the Oldham, Ashton and Guide Bridge on the next line, together with our share of the Portpatrick and Wigtownshire line which is an absorbed undertaking.

41. I suppose there is a Schedule actually showing how the £7,108 is made up apart from your explanation, is there?—There is not. If there had not been an absorption of one of the "J" joint lines that £7,108 would have been reproduced in Schedule F, but you can take it this way: The £3,673 *plus* the £527 are the two lines that now remain in existence. If you add the amount of the Portpatrick and Wigtownshire portion accruing in 1913 to the London and North Western Company, which is the same as the Glasgow and South Western figure of £2,909 you get the figure

42. *Lord Advocate*: How much from the Portpatrick?—£2,909.

Mr. Jepson: Would not that be in this Schedule F, that Portpatrick and Wigtownshire line of 1913?

43. *Lord Advocate*: The total you will find upon page 2, but the distribution of it I do not think appears, does it?—It is distributed separately, that is why, on page 2 in the balance of the remaining "J" lines included in Schedule A.

44. *Mr. Jepson*: This might be a very good illustration to follow out if it is not a little too tedious. Where do we find the balance, do you say, of the £3,673. Where is that?—Will you look at page 2, column 15, opposite the Portpatrick and Wigtownshire Joint Committee, Subsidiary Working Com-

mittee, £11,635. One-fourth part of that was the London and North Western's share of that line.

45. It does not come out as a figure, but that is the calculation?—Yes.

46. One-fourth makes up the £7,108?—Yes, £2,908 added to the £4,200 gives the £7,108 in Column 15.

47. *Lord Advocate*: I suppose the same process could be carried out with regard to the other companies?—There is one company where you can exactly trace the amount from Schedule F. Take the Lancashire and Yorkshire at page 36. There are two joint lines there, the Methley and the South Yorkshire lines. The totals are £53 and £86, together £139. Now, in Folio 2, opposite the Lancashire and Yorkshire in Column 15, you find the £139.

Lord Advocate: You might just refer, Mr. Jepson, if you please, to page 10 of the London, Midland and Scottish Group accounts. If you will look at the item there which is head "Portpatrick and Wigtownshire Railway" and carry your eye down to the foot of that you will see that is the company's; that is to say, the London and North Western Company's proportion of other uet receipts, £2,908. There is the figure.

Mr. Jepson: That is the lgure given by the witness.

Lord Advocate: That verifies that.

Mr. Jepson: The same thing is followed in the London, Midland and Scottish and Glasgow and South Western accounts?

Witness: That is so.

48. *Lord Advocate*: While we are on this, you might explain in Schedule A how you have dealt with those receipts of joint lines other than in respect of railway working. Will you just be good enough to explain how that column works out, Column 15?—In the first instance, the amounts accruing to the several constituent companies are shown in Column 15 and carried out into the total Column 17. Then, later, the total of those six items, £39,211, is deducted by two items shown as transfers. The transfers are a distribution of the amount over the other columns in this Account No. 8. The transferred amounts are merely cancellation of the addition of Column 15, but the items as distributed are not carried out into the total column.

49. If you carry your eye down the column 15 you will find at the bottom, in the figures which are carried to the summation at the end, there is nothing in that column, aud similarly one finds nothing against the horizoutal entries in the vertical column at the end?—That is so.

50. So that these are merely explanatory distributions of those figures which are in the——?—In one sum in column 15.

Lord Advocate: I am much obliged.

51. *Mr. Jepson*: Those sums in 1 to 5 found their way somehow into the total; that is done by distributing them over the columns 3 to 16?—They found their way into the bottom column by that method; they are also in the total column up above.

Lord Advocate: They are in the first six items at the top of Item 16, Mr. Jepson, and these items are carried along horizontally into the totals there so that they are brought into account, but the distribution of them involved a duplication of entry, and therefore it would not have done to have repeated them in the summations.

Witness: That is so.

52. Then I may take the point about non-working companies? Under the Railways Account Act of 1911 I think that certain companies were excluded from the operation of the Act?—The Act applied to working companies.

53. And, therefore, when the amalgamation came along the accounts of non-working companies were not in all cases, at any rate, to be in conformity with the statutory form?—That is so. They were compiled generally under the 1868 Act Schedules.

54. I think these companies are sometimes referred to as worked companies, and their undertakings as worked lines?—That is so.

55. But is the term "non-working companies" that which is employed in the Ministry of Transport Blue Book?—I adopted that from the Ministry of Transport railway returns.

56. And are the undertakings of such companies either leased to a working company, or subject to a working agreement?—They are worked by one of the constituent or subsidiary companies under agreement or by lease.

57. Do the adjustments which are made in Schedule G, that is to say, adjustments upon the accounts of the non-working companies, vary in any respect the amounts of the net reveuue of the companes?—Only in one case so far as the accounts were published, and that is in the Great Western Company. I think Mr. Cope when he follows me will explain that; but so far the amount of net revenue is not altered by reason of the adjustments that we have made in Schedule G.

58. You have, so to speak, re-arranged, I take it, or re-adjusted, the accounts of the non-working companies which were not in statutory form and the consequence of doing that has not been to disturb the net revenues?—No.

59. Except, as you say, in one small instance in the Great Western Company?—Yes. I do not know the circumstances, but they will be explained to you no doubt.

60. And then, of course, the revised figures resulting from your re-arrangement of those non-statutory accounts, non-working companies, are carried to your Schedules A and B?—Yes.

61. And so find their way into Folio 1?—That is so.

62. And you give the necessary reference to trace the transactions?—In Schedule G the references are given to the bound volume.

63. Quite so. There is another column in Schedule A headed, "Special Items," which I have not alluded to at all in opening. What goes in there—column 16?—The details of the special items are set out on Schedule H, at page 43.

64. Can you tell the Tribunal what is the characteristic of a special item? What sort of things are they?—The principal item is the Midland Company's income from the Northern Counties section in Ireland, £140,000. The total of the special items, £210,677 in the case of the London and North Western. There are two investments, two payments made to the London and North Westeru; one by the Great Western, one by the Furness. We could not allocate those under any of the items from 2 to 16 inclusive, so we put them into the special items columu.

65. They are exceptional things that will not fit into any of the other items?—That is so.

66. Then your Schedule J, which immediately follows, gives details similarly for the special items in Schedule B?—That is so. Here, again, it is certain dividends payable by the North Western and by the Midland and other lines; certain interest on temporary lines, for example, we have put into the special items. Those are like overdrafts, matters of that kind, aud there is not a statutory heading for them, so we put them iu as a special item.

67. Now I think we have dealt with all the Schedules F, G, H and J, which are other than A and B which deal with net income and the interest and rental charges, and C, D and E, which deal with the capital expenditure. We will come to them in turn, but we can lay aside these Schedules after the letter E?—From F onwards they are subsidiary to A and B.

68. Quite so. Now, coming back, will you be good enough to explain to the Tribunal the compilation of Schedules A and B?—Schedules A and B have been compiled from the published accounts of the company in the first instance; the accounts are re-printed and bouud in volumes.

69. Are these the four volumes which have been furnished? The blue contains all the London, Midland and Scottish Railway Company; the orange contains the London and North Eastern, and the Great Western is in a buff volume, and so also is the Southern Railway Company?—That is so.

70. I think in the London, Midland and Scottish volume, first of all, do I find simply the ordinary reports or accounts which are compiled every year under the 1911 Act, and which are sent round to all the shareholders?—The directors' reports, omitting the financial and statistical accounts, are re-printed.

71. And you have for this purpose gathered these together and put them into the one volume?—For convenience.

72. You might explain a matter which, perhaps, I left a little bit vague. I think, so far as the companies now embraced in the London and North Western Railway published accounts in conformity with the Act of 1911, they are all here.

Mr. Jepson: The London, Midland and Scottish Railway; you said the London and North Western Railway.

73. *Lord Advocate*: I beg your pardon; the London, Midland and Scottish Railway. So far as the companies now composing the London, Midland and Scottish Railway published accounts in conformity with the Act of 1911, are all their accounts for 1913 in here?—That is so.

74. Then what about the companies now embraced in the London, Midland and Scottish Railway which did not publish accounts in conformity with the 1911 Act?—They are also in this volume.

75. They are in this volume in the form in which the companies themselves issued them?—In the form in which they were published.

76. That makes it quite clear. Therefore the volume contains nothing but the published accounts of the various companies for 1913 which now compose the London, Midland and Scottish Railway Company?—That is so.

77. I mean to say the accounts of companies which did not compile their accounts in conformity with the 1911 Act have not in that volume been adjusted; the adjustments are to be found in Schedule G of your blue book?—That is the blue book. No adjustments have been made. They are an exact reproduction of the accounts published.

78. And are all, therefore, published documents available to any one who wants them?—That is so.

79. Had you to address yourself at the outset of your investigation to the ascertainment of the net revenue of each one of those companies?—That is so.

80. You refer, do not you, to the comment made by the Minister of Transport in his memorandum, F. 4885, on the various meanings that might be attributed to the words "net revenue"?—That is so. As a matter of fact, the companies had arrived at this decision before we had a sight of the Ministry memorandum.

81. Did you find that the method upon which you had resolved was in conformity with the fourth of the four methods referred to in the Minister's memorandum?—That is so.

82. Had you independently of that memorandum come to the conclusion that the proper course was to construe these words "net revenue" as applying to the portion of the net income of 1913 which was available for the remuneration of capital and for appropriations to general reserve, and for special purposes within the discretion of the proprietors?—Yes.

83. And that decision, as you say, was found to be in accord with the fourth of the methods alluded to by the Minister?—Yes.

84. When the Minister refers to capital issue, how have you construed that in your own case?—We consider capital issue to include debenture stock, debentures and capital loans as well as shares in other classes of stocks.

85. Have you so prepared your Schedules A and B as to admit of the figures being easily traced from the financial accounts in the statistical returns for 1913?—That is so, and the pages from which the figures are taken are shown in the right-hand column, and the indication letters given.

86. If we look at Schedule A, for example, in the last two columns we find references?—Yes.

87. And are the references in the first of those two columns references to the page of the London, Midland and Scottish collection of accounts of the companies now embraced in that company?—Yes, for the constituent and subsidiary working companies.

88. While Schedule G gives you for the non-working companies the adjusted accounts of those companies?—Yes, and from Schedule G can be traced also the prints in these volumes.

89. Schedule G, in turn, shows how you have adjusted the accounts, but when you go to Schedule G can you get thence to the actual accounts of those non-working companies in your blue volume?—Yes, in columns 5 and 6 of Schedule G.

90. *Mr. Jepson*: Headed "References"?—Yes.

91. *Lord Advocate*: Now, that is the apparatus of your compilation?—Yes.

92. Therefore any particular item can in this way be traced to its source?—Yes, to the printed accounts.

93. And examined, if desired?—Yes.

94. Shall we now specially take Schedule A?—If you please.

95. Does Schedule A contain all the items in Account No. 8 of the published financial accounts from railway working, ancillary business, other sources of revenue, such as rents, general interest, etc., and ownership proportion of the net income of "J" joint lines?—Yes.

96. All brought in?—All brought into Schedule A.

97. And are the amounts entered in detail in the series of columns numbered 2 to 16?—Yes, with the total in No. 17.

98. I think that the method which has been adopted in order to show what you have done has had the effect at the outset of duplicating the receipts of the non-working companies which we find in Schedule A on page 2, branch B of subsidiary companies. Is not that so?—Yes, that is so.

99. And then is that duplication rectified if we turn to Schedule B, column 8?—Yes, rent of and guaranteed interest on leased and worked lines. The duplication is cancelled there.

100. Are those payments included as an expense of the working company?—Yes.

101. Under the rent of and guaranteed interest on leased and worked lines?—Yes.

102. And is the consequence, therefore, to eliminate the duplication?—Yes, and leave the receipt in once only.

103. The advantage of giving it twice over is to show the structure of the account?—It would have been necessary to have made a great many adjusting entries in order to have shown the figures without duplication.

104. So it is better to put them in twice and then take them out in order to show how you disclose the whole method of dealing?—I thought for the sake of clearness it was better to do so.

105. You can give an example, I think if desired, of how that has been done. Perhaps it might be useful to exemplify it. Take the North Staffordshire which worked the Leek and Manifold Railway. Will you exemplify that from your accounts; how you deal with it? The North Staffordshire Railway on page 2?—The total receipt, £441,288, includes the receipts of the Leek and Manifold Railway. The amount paid to the Leek and Manifold Railway was an annual rent of £675, and £675 is included in the £441,288.

106. Can you trace that entry?—Further down under "non-working companies" you will find the Leek and Manifold Valley Light Railway with a total net income of £664; that consists of the £675 rent paid by the North Staffordshire Railway Company *plus* some local receipts of their own, such as rent item less expense of that Leek and Manifold Railway. I pass on to page 4, and opposite the North Staffordshire Railway you will find in Column 8 the rent item

of £675 charged as an expense. The amount, therefore, included in respect of the Leek and Manifold Railway is £664 in A *minus* B.

107. So that although on Schedule A the item is really included twice it is not quite the same item. £675 is in £441,288, and £664 is in the total of £19,991,647. At the foot of the page you bring matters back to a bearing by your deduction from Schedule B of the £675 which you find on page 4?—That is so.

108. *Mr. Jepson*: The £675, of course, is left part of the deduction of £1,238,391. £675 forms part of that which is taken out of its revenue?—That is right.

109. *Lord Advocate*: It is deducted as Item 1 from Item 2 in the first folio. The result is the aggregate net revenues of the companies forming the London, Midland and Scottish Railway include therefore, with the Leek and Manifold Company, the net sum of £664 only. That is Schedule A?—That is so.

110. I draw attention to the word "adjusted" which we see in brackets in Item No. 1 of the general account. Have two classes of adjustment been made in Schedule A on the total net income figures of Account No. 8?—Yes.

111. The first class of adjustments result in an addition to the net income appearing in the published accounts, while the second results in a reduction of the net income?—Yes.

112. Let us take the first class of adjustments which consists of additions. We need not delay, I think, over page 2. Do we find the first addition on page 3?—On page 3, yes.

113. Will you just tell the Tribunal your justification for bringing in the sum; for adding the sum of £169,127 to the net income shown in Account No. 8?—In the year 1913 at the 1st of July the companies increased their exceptional rates for goods train traffic, other than coal, by 4 per cent. on the average. The rates were disputed, and actions were threatened against the companies in the Railway and Canal Commission Court. The actions were pending at the end of 1913, and some of the companies took out the traffic receipts of that year and placed in suspense the whole, or the estimate, of the amount received from the increased rates in the six months from the 1st of July to the 31st of December, 1913. The amounts were really earned in 1913. They were taken out and placed to the suspense account as an act of prudence lest they might not be able to justify the increases when the actions against them came to be heard. Later, two test cases were heard by the Railway and Canal Commissioners, *the Associated Portland Cement Manufacturers against the Great Northern Railway*, and *the Butterley Company and others against the Midland Railway and others*, and in both cases the Court held that the rates had been justified, and, therefore, the amounts that had been reserved in 1913 were found not necessary as the increased rates had been justified. The amounts are, in fact, the earnings of the year 1913, and what we have done is to reinstate them.

114. I think that only applies to three of the companies?—To three of the amalgamated companies, the London and North Eastern, the London, Midland and Scottish, and the Great Western. In the case of the Southern Railway Company I can speak generally with regard to the details, but the negotiations between the Postmaster-General and the company will be given by the witness for the Southern Railway Company.

115. As regards the 4 per cent., in their case, I think, they just took their courage in their hands and brought in the 4 per cent. yield into their accounts?—Yes. You see, the Southern Railway Company has not such a big goods train traffic.

116. And they just took such yield as the 4 per cent. gave them right into their accounts at once?—That is so.

117. *Mr. Jepson*: They did not reserve anything?—They did not reserve anything.

118. *Lord Advocate*: They assumed they were right?—They assumed they were right.

119. And, therefore, if you were bringing the accounts of the four amalgamated companies into line, you would require to eliminate from the Southern Company's accounts what they then treated as their income, if you are not allowed to take the 4 per cent. into your accounts?—If we are not allowed to reinstate the 4 per cent.

120. The fact was, that they thought they had better carry it to suspense account?—That is so.

121. In your opinion, is there any doubt that these sums form part of the net income of 1913?—In my opinion, there is not any doubt on the subject.

122. Did their addition to the net income in any way involve a disturbance of the published accounts of 1913?—No, for this reason——

123. The legitimacy of the addition was only established after 1913?—After the 1913 accounts had been completed.

124. *Mr. Jepson*: I suppose in all these cases these amounts that were reserved were taken off the various accounts before they found their way into account No. 8?—Yes. The amounts were deducted from the figures occurring in account No. 10. The amounts are shown in those accounts after the deduction of the reserve.

125. *Lord Advocate*: I do not ask you for any detail regarding the special item of adjustment applicable to the Southern Railway Company in respect of £20,000, the addition to the mails contract. That will be dealt with by the witness for the Southern Company, will it not?—Yes.

126. You know generally that was given to the South Eastern and Chatham, was it not?—Yes.

127. As from the 1st January, 1913?—That is so. In those cases in the Government control period the 4 per cent. increase suspend and the Post Office mails were dealt with, and the three companies had their 1913 receipts considered as the amount in the published accounts plus these reserves. The Southern Company had also a similar arrangement.

128. So that the figure which you have added—the 4 per cent. increase, in other words—was recognised as part of the net receipts of 1913, the maintenance of which the Government guaranteed under the compensation arrangement entered into in August, 1914?—Yes.

129. Now we have done with page 3 and you have explained the addition. Of course, this addition applies equally to constituent companies, subsidiary companies and to joint lines. All of them who put up their rates by 4 per cent. carried on the same policy of carrying to suspense the proceeds until it was seen whether they would be returned?—Yes.

130. And the result was to give you for the London, Midland and Scottish Company a figure of £159,167, which is added to No. 8 account for the purposes of compiling the figure on folio 1?—Yes.

131. *Mr. Jepson*: Just to make it quite clear, would you mind following it out if you can in the North Western accounts for 1913 and show the Tribunal where that £52,000 which was reserved by them appears in account No. 10?—Would you mind taking the Midland case? I know the details there.

132. Very well, we will take the Midland. What page will that be?—It is on page 27.

133. We have £70,000?—There is £70,000. You will see the item on the credit side of the account: "Goods Train Traffic, Merchandise £4,774,212." That is after reserving a sum of £30,000 for the 4 per cent. increased rates. The receipts for merchandise traffic of the Midland Railway Company in 1913 were £4,804,212.

134. Where does that £30,000 appear as an item in the accounts?—It does not appear as an item in the accounts, but I can tell you that it is in the balance sheet. The £70,000 is in the balance sheet at page 34. On the credit side of the balance sheet there is a transaction: "Outstanding Traffic Accounts, £1,896,345." That amount is after a deduction of the reserve of £70,000. We looked upon that £70,000 as an item that we might not recover—an outstanding traffic account that we might not recover.

135. *Mr. Locket*: But the book entry, so far as you were concerned, does not appear in any of these accounts?—No, not the book entry.

136. *Mr. Jepson*: But it is merged in these outstanding traffic accounts?—Yes.

137. You reserve £70,000 as being risky?—Yes.

138. Although some of the money may have been paid and have come into your revenue accounts?—Yes. The whole of the amount came into our revenue accounts. The amount of the outstanding traffic account of the Midland Company on the 31st December, 1913, was £1,966,345, but we deducted £70,000 that we had reserved from traffic receipts, because it was an outstanding that we might not recover if the action went against us in the Railway and Canal Commission Court.

139. Does not that item of £70,000 appear in the accounts at all anywhere?—Not on the face of the accounts. It is a reserve written out before the accounts were arrived at. It is a book transaction. It exists as a reserve.

140. Does it exist as a reserve in these accounts?—Yes.

141. In what item would we find that £70,000 included?—It exists as a reserve by being deducted from an asset.

142. Yes; but for the purpose of balancing the figures of the accounts that £70,000, having once been included in the gross receipts and written out, should appear somewhere else as being written out to get a balance?—Yes. If the balance sheet described it in full the transaction would read: "Outstanding traffic accounts £1,966,345, less amount reserved for disputed increased rates, £70,000, making the asset £1,896,345.

143. I follow that. Now I want to know where is the £70,000 carried to to make your account balance?—That is how it is dealt with. Having been written out of traffic receipts——

144. It has been brought into traffic receipts once?—Yes.

145. And now in this account—the general balance sheet—you bring in something less by £70,000. Where does that £70,000 appear?—We brought the amount in the first instance into railway receipts. Then we wrote it out and left a lesser sum in No. 10 account. Then we dealt with that reserve. It was an amount standing to a suspense account in the company's books—Reserve for disputed increased rates, £70,000. It might have been included on the other side of the balance sheet as a reserve fund, but instead we dealt with it as a deduction. That has the same effect as putting it on the debit side of the balance sheet as a reserve.

146. *Lord Advocate*: As I understand, in the general balance sheet on page 34, you could have entered outstanding traffic accounts, not as the £1,896,345 that we find there, but as that sum plus £70,000?—Yes.

147. If you had done so, would you have then had on the debtor side of your balance sheet an entry of £70,000 at suspense to await the decision of the Railway and Canal Commission?—Yes.

148. In that way you would have balanced?—Yes.

149. But as it stands you have simply deducted the sum from your outstanding traffic accounts and not carried it anywhere?—That is so.

150. *Mr. Locket*: And I suppose in the subsequent year it was brought in as an asset and tended to swell the amount available for dividend?—Yes, that is how it would be dealt with. It would be brought back as a revenue receipt, or, as a matter of fact, it was placed to reserve.

151. You treated it as a permanent reserve after that?—Yes, later on.

152. *Sir Douglas Hogg*: You did not bring it back?—We did not bring it back into revenue; we treated it as a reserve.

153. *Lord Advocate*: The point being, of course, that it was reserve in the year 1913. That is what we are really concerned with.—Yes; it was revenue of the year 1913.

154. How you deal with it does not really much matter. The question is was it revenue for the year 1913; if so, it ought to be part of the accounts?—Yes.

Mr. Jepson: Mr. Quirey has told us that it was included in the general revenue account in the first instance. It was treated as it was charged to the public and invoiced and brought into their accounts, as a revenue receipt, and this was simply a reserve in the general balance sheet. There is nothing to show in the accounts, apparently, whether it was £50,000 or £70,000 or £20,000 or anything. But if it was already in the revenue account and treated as money, is it necessary to take it now? As it was never brought back and treated as revenue afterwards that shows that it was never taken out of the main revenue account. Is it necessary to bring it back now and add it to the net revenue of 1913?

155. *Lord Advocate*: You see the point, Mr. Quirey?—I must have misled you, Mr. Jepson, if you understand that the amount was retained in No. 10 Account. I say it was in the railway traffic receipts in the first instance, but it was written out and placed to reserve. The amount shown in No. 10 Account is after deducting the £70,000.

156. So that it is not taken credit for. Take a rate charged to the trader and deduct 4 per cent. Of course the consignment notes are all 4 per cent. more. The trader paid that under protest and the money comes into the railway company. You did not treat yourselves, I understand, as receiving the whole of that. You divided off a portion of what you got and said: "As regards that, that is in dispute. As regards the rest we take credit for it." But, in the first instance, did you enter in your account the total sum you received, including the 4 per cent. from the trader?—Yes.

157. You did that in order to balance your account, because the consignment notes, you say, contained the 4 per cent. As a matter of accountancy you would have to take the whole receipts, but how did you deal with that?—At the end of the year an entry was made debiting traffic receipts and crediting suspense account with the estimated yield from the 4 per cent., and the amounts received from the traders were diminished, and that diminished sum shown in this account No. 10.

158. May I therefore take it that the figure which you get in No. 8 account—the net income account—does not, in fact, include the produce of the 4 per cent. increase?—It does not include it.

159. And that is the justification for writing it back now?—Yes. that is so.

160. It was in your receipts and then was taken out of the receipts because of this dubiety, and was brought back again when the dubiety became a certainty; is that the position?—Yes.

President: But in the meantime do I understand that they have taken it to permanent reserve?

Lord Advocate: I do not know what they have done with it now.

Witness: Later on when the dispute was settled we did not bring the amount back and distribute it as dividend; we kept it as a reserve.

161. *Lord Advocate*: You are speaking for the moment for the London Midland and Scottish Company?—I am speaking for the Midland before the amalgamation.

162. *Mr. Locket*: Is it included in the reserves that were shown in the balance sheet of the London Midland and Scottish now?—Yes, it would be included in those reserves.

163. It is not a secret reserve; it is included in the geeral bulk of reserves?—It is included as a reserve in the miscellaneous accounts.

164. *Lord Advocate*: Some of the other companies, I understand, in point of fact did carry the sum to profit and loss account and distribute it?—Yes.

165. It just depends what you did with it. But the important question for the moment is ought it to form part of the revenue for 1913 for present purposes?—In my view it is an earning of 1913.

166. Whether it is distributed in dividend or carried to reserve is a matter of discretion, of course, for the directors?—Yes.

Sir Douglas Hogg: I understand it is an earning of 1913 not shown in the 1913 accounts.

167. *Lord Advocate*: The same applies of course to the £20,000—an earning of 1913 not shown in the 1913 accounts?—Yes.

168. But subsequently attributed to 1913 when awarded?—Yes—when awarded.

President: You are dealing with the mail contract now are you?

169. *Lord Advocate*: Yes—the mail contract. (*To the Witness*): Now will you pass to the next matter on page 3 where you make a deduction? The previous item on page 3 is an addition to net income, which is No. 8 account. Now we have a deduction from No. 8 account. Will you explain the justification for that deduction?—The net income of 1913 included certain sums for interest upon investments of one company in another company now in the same group. When the amalgamation schemes and absorption schemes were sanctioned by the Railways Amalgamation Tribunal, provision was made in some cases for the cancellation of the investments, and therefore as the income would not recur in a future year we considered it proper to reduce the 1913 income by the amount accruing from the investments which were subsequently cancelled. By these means we make the accounts of 1913 strictly comparable with the accounts of a future year.

170. That deduction of course is to the interest of the traders?—It is a reduction of the standard revenue.

171. Exactly; and the justification for this reduction is that it will not recur subsequent to amalgamation?—It will not occur in a future year's revenue.

172. Can you trace the majority of the items from the published accounts of 1913?—Yes.

173. Will you take one example to show us how you work the thing out practically, because there is nothing like a concrete case? Will you take the case of the North Lindsey Light Railway?—You will have to go to the London and North Eastern volume. May I take the London, Midland and Scottish?

174. Yes: take the London, Midland and Scottish. Will you take the Callander and Oban?—I would prefer to take the Cockermouth, Keswick and Penrith. There is an item in the London and North Western annual accounts for 1913, page 6, account No. 8, "Interest and dividends from investments in other companies: Received from the Cockermouth, Keswick and Penrith Railway, £725." If you will turn to page 2 of the small blue book "R.T. 3A," the £725 forms part of the figure of £89,837 in column No. 12, and the total is carried out in column No. 17, £6,334,595. Now, further down, under "Subsidiary companies: Working companies," the Cockermouth, Keswick and Penrith Railway is shown with a railway receipt of £11,967 and a total of £12,818. Now the £725 paid to the London and North Western Railway Company is in that £12,818. It is also, as I have shown, in the £6,334,595. The investment has been cancelled under the absorption scheme, and the £725 will no longer be received by the group company. Therefore we have reduced the net revenue of 1913 by the income received in that year from the investment; we write that out.

175. *Mr. Locket*: And a similar state of affairs applies to all these other lines?—Every one.

176. The North London, the Shropshire Union, and so on?—Yes; to all the others there.

177. *Mr. Jepson*: Do you take a similar £725 off the Cockermouth, Keswick and Penrith net income, or has it already been discounted before the figure in column 2 relating to the railway receipts of the Cockermouth, Keswick and Penrith Railway of £11,967? That would be after deduction of the £725 paid out to the North Western, would it not?—No. The £725 was paid out as a dividend to the Cockermouth, Keswick and Penrith Company, and the company is required to keep that account in its railway earnings in order to pay the dividend. But the North Western have the amount in as an income from investments which it received from the Cockermouth Company. Now what we have done eliminates the amount which the North Western Company brought into their net revenue and leaves in the aggregate net revenue of 1913 the earnings of the Cockermouth line alone.

178. *Lord Advocate*: So that the result is that in folio 1 there has been a deduction made in respect of that non-recurring item of revenue?—Yes.

179. I think in some cases, however, the deduction cannot be traced specifically from the published accounts?—That occurs in the case of the Southern Company. We examined all the amalgamated and absorption schemes, and we found two items in the Southern Company which we could not trace direct into account No. 8.

180. Is one of those mystery items the one that is referred to in the Minister of Transport's Memorandum F. 5210 where he asks about a certain item of £6,281?—Yes; that is the sum of the two.

181. He desires an explanation about that. Have you now been able to track it down?—Yes. We found that in the case of the London and South Western Company a sum of £5,610, received as a dividend from the Plymouth, Devonport and South Western Junction Company, had been included by the London and South Western Company as a general interest item, buried in the general interest items. So what we have done is we have deducted the amount from the general interest column of Schedule "A" of the Southern Company. The other transaction was in the London, Chatham and Dover accounts where that company had an income of £671 from the Mid-Kent Railway.

182. Is that item corrected in Schedule "B"?—That is corrected in Schedule "B," because in the case of the London, Chatham and Dover Railway their general interest was a debit for 1913. So what we have done is to restore the general interest debit to the gross figure. We added the £671 to the general interest debit to restore it to the gross figure.

183. So far as Schedule "A" is concerned, I think you have in the case of the London, Midland and Scottish only the one addition and the one deduction, apart from the small addition in the case of the Caledonian Railway Company at the foot of page 3, Schedule "A"?—Yes.

184. Is that a mere correction of an error—a displaced item?—Yes, that is so.

185. I mean an item out of place in the accounts?—Yes. The Caledonian Company brought two receipts into the top of No. 9 account instead of bringing them into No. 8 account. It was necessary to transfer them to Schedule "A."

186. I do not know whether this would be a convenient stage at which you should tell us about, and discuss the position of non-cancelled investments, or if you would prefer to defer doing that?—I think we might take it if you feel disposed.

187. Certainly, because it seems to come in now. You have explained how you have dealt with the case of the cancelled investments?—Yes; where the income will not recur.

188. Yes. As we know, there are certain instances of investments not cancelled?—That is so.

189. I did my best in opening to explain how they did. Perhaps you will be able to make it even clearer as to how the matter stands?—In some instances the investments of one company in another company now in the same group were not cancelled as the result of the amalgamation and absorption schemes, and as a result the Amalgamated Company's Stock has been issued in exchange for the Stocks held by the constituent company, so that, therefore, the amalgamated company now holds its own Stock to a certain amount. Now that Stock is remunerated in exactly the same way as Stock held by the public and the amount of dividend earned on that Stock and paid on that Stock in one year is brought in as income of the amalgamated company in the following

year in just the same way as the constituent company previously brought in the amount received from the other company. The amount will recur as income from other sources so long as the Stocks are held by the amalgamated company.

190. Now, will you follow the matter further. I do not know whether you can tell us as a matter of fact whether as yet any of the amalgamated companies have disposed of the shares which were issued to themselves in their own companies?—I do not know. I can only speak for the London, Midland and Scottish. We hold our Stocks and we have no intention to part with them.

191. You have not parted with any of them yet?—No.

192. *Mr. Locket*: Have you power to hold them?—I do not know about that; I think not, perhaps; but in the case of the Midland we have held them for many years.

Lord Advocate: We are glad to know that the Company has so much confidence in its own Stock.

193. *Mr. Jepson*: What did you say last—that in the case of the Midland you have held them for many years?—Yes.

194. Does it come about in a similar way, through amalgamations or absorptions?—It is from absorptions—principally the Tottenham and Forest Gate Line.

195. *Lord Advocate*: To follow the thing through, as I understand it is a topic which gives some interest to the traders, at the present moment these dividends which the Company pays itself—it rather sounds like feeding a dog with its own tail, but I suppose it is all right—from other sources of revenue, do they not?—Yes, they do.

196. And go to the reduction, therefore, of the sum which is provided by rates and charges; is that right?—The net revenue to be provided by rates and charges would be less the amount of dividend upon these Stocks.

197. So long as the company continues to hold those non-cancelled investments represented by its own stock, no prejudice could arise to anybody, I understand?—No one is prejudiced.

198. But suppose at a future time the London, Midland and Scottish were to dispose on the market of the parcels of its own shares which it possesses, or some of them, what would be the result of that?—If the amount received on a sale of the stocks was re-invested, then again no one is prejudiced.

199. Matters would be as they were?—Yes; there would still be the income from other sources of revenue.

200. Suppose the capital realised by the sale of those shares were put into the undertaking, that is to say, that it was spent upon capital works, what then?—On this matter I can only speak for myself.

201. If you please?—In my view it is a realisation of a pre-1913 transaction, and if put into the undertaking no claim would lie for an allowance upon that amount. I cannot see that it can be considered to be capital raised or provided in respect of capital expenditure.

202. It previously existed and was therefore neither raised nor provided?—It existed in 1913 and the 1913 net revenue includes the amount of earning upon it.

203. It would not answer the description of additional capital raised or provided which Section 58 (1) (*b*) contemplates?—That is my view; and I say that it would be equally met, if disposed of and used for capital expenditure, if the 1913 net income was adjusted by deducting the income of that year the same as if the stock had been actually cancelled.

204. Of course you can do it in various equivalent methods; but is it your view that the sale of such stock, and the consequent capital realised invested in works, is not a matter in which the traders are concerned?—I did not quite catch that.

205. The point is this: that the London, Midland and Scottish realise some of their own holdings in their own stock?—Yes.

206. They obtain funds from that and those funds are applied by them in paying for the cost of work of some sort. In that case I understand you to say that the trader is not entitled to complain of the loss from other sources of revenue of the dividend which that sold Stock had previously earned from your company.

President: He did not say that.

Sir Douglas Hogg: That is not what he said. Let us have it right.

207. *Lord Advocate*: I thought he said that. (*To the Witness*): What did you say?—What I did say was that if the amount realised by the sale of these investments is used for capital expenditure, in my view the company would not be entitled to claim an allowance upon that capital expenditure under Section 58 (1) (*b*) or Section 59 (3) or (4) at a subsequent revision.

208. Quite. The really important point for our present purpose is this: Is there, in your view, any just ground of complaint from the point of view of the trader, because the result of that transaction as I see it would be that other sources of revenue would lose, would they not, this dividend which the London, Midland and Scottish are paying themselves?—In my view the trader is not prejudiced.

209. I want to know why?—Because while the other sources of revenue would be depleted, the earnings of the new work would be substituted.

210. *Mr. Jepson*: You said that you could not treat it as new capital because it was capital that had been raised prior to 1913 but invested in the stocks of another company. Therefore it was not new capital. How would you treat it differently from capital that had been raised, say, before 1913 but not expended, and expended after 1913 on works? Would you say that because that capital had been raised before 1913 and not expended you would not have any claim in respect of it?—I do not know of any case of capital raised prior to 1913.

211. Let us assume a case of capital raised before 1913, which is in your capital account before 1913 but not expended. It is expended on works after 1913 which might come into the category of (*a*) or (*b*). Do you say you would not have a claim on that because the capital had been raised before 1913?—No, I do not think so. I should claim that the amount having been expended since the 1st January, 1913, the capital had been provided in respect of it.

212. I do not quite realise the difference between that and capital which had been raised or provided in some way before 1913 and invested in other stock which is realised, and the money remained to be spent on capital account?—It is a very complicated subject. I spent a very considerable time on it last night, and you can look at it in many ways, I can assure you. But as I looked at it I was convinced that these items having been provided prior to 1913 and realised now——

213. Does that make any difference?—I think it does.

214. It is not clear to my mind that there is any difference. If the capital was provided before 1913, it does not matter what was done with it.

215. *Mr. Locket*: But is not your point that prior to 1913 this capital was revenue producing, and the revenue produced by it comes into your revenue before 1913?—That is the difference between what you and Mr. Jepson put to me.

216. Therefore, it is not additional capital expended subsequently to 1913; it is simply a re-investment, bringing in a different class of revenue, perhaps, but still revenue, corresponding in the same way to the revenue that was received prior to 1913?—The earning of that investment is in 1913; that is the distinction between the two.

217. *Mr. Jepson*: Is there any distinction, because I cannot imagine the North Western raising capital and not spending it, or letting it lie dormant. It would be deposited in the bank or invested in war loan or something of that sort, would it not?—Yes.

218. And the dividend or interest on that money would be brought into the revenue account?—Yes, that is so.

219. Then I do not see the difference between the two?—I looked upon it as capital which was remunerated in 1913, and the amount stands in the standard revenue.

220. Yes, in both cases it seems to me. There may be a distinction, but at the moment my mind is not clear on it?—The contrary view will possibly be taken by a succeeding witness.

221. *Lord Advocate*: What I want to know is this. Of course, you have not sold any of your London, Midland and Scottish holding at the present moment?—No.

222. And therefore nothing has happened to anybody in respect of that?—No.

223. We are dealing with a hypothetical case—supposing you do sell?—Yes.

224. All I want to get at is your opinion—whether the others share it or not I do not know—whether a sale has any prejudicial effect upon the calculation we should be making in future years for the traders' purposes of which they would be entitled to complain. What do you say about that?—I say, no, because whilst the amount included in the standard revenue for income from other sources will not appear in a future year, there has been substituted the income from the works.

225. Without the trader paying anything in respect of an allowance on capital raised or provided under compartment (*b*)?—That is the point.

226. He is not called upon to pay anything in respect of that capital expenditure under paragraph (*b*), and therefore he is to that extent the gainer?—The amount of earning on the new work compensates for that.

Mr. Jepson: Are the company going to earmark that capital as distinct from anything else they have in their capital accounts and say that that particular capital shall not be brought into a claim under (*b*)?

227. *Lord Advocate*: At the present moment that will not arise. It would only be, I take it, in the case of a revisal of the charges under Section 59 as far as the London, Midland and Scottish are concerned. (*To the Witness*): As regards companies which have sold any part of their investments in their own stock before the present date, do you know if that has happened?—I do not know. My remarks applied to our own company, where the amount is not in the capital expenditure account, but in the balance sheet as an advance to the company not charged as capital expenditure. If the amount appeared in the amalgamated company's outlay as capital expenditure, then when the stock would be disposed of it ought to be written out of the capital expenditure account.

228. But have you the means of identification is what Mr. Jepson is asking you? Would you have the means of identifying it?—It would be very difficult, I agree; but I think we could devise means to make the necessary allowance in the claim under 58 (1) (*b*) or 59 (3) or (4).

229. It is not for me to argue with you, but I do not quite see why it should be difficult, because it seems to me if you have so much stock standing in the books of the London, Midland and Scottish and you sell that and you either reinvest it or put it into the company's works, that sum of money, the proceeds of the sale, must be an easily ascertained amount I should have thought?—It becomes part of the floating capital of the company. It is in the bank account. If the amount is immediately reinvested, it can easily be earmarked.

230. But could not you make a deduction in respect of the proceeds of sale from your capital claim?—From the capital claim, yes.

Lord Advocate: That is what I mean. There is no difficulty in doing that in the capital claim.

231. *Mr. Jepson*: It must remain in the capital account. If you sell it the proceeds are still capital and it must remain in your capital account?—The amount remains still as a capital receipt. It is a capital receipt account.

232. Supposing you invested it in war loan and you kept it in war loan for two years, and then you wanted additional capital and you sold your war loan, is it still earmarked?—I think it should be earmarked. It could be.

233. It would be rather difficult?—It would be difficult.

234. *Lord Advocate*: So far as the application of the proceeds of the sale of such stock is concerned, that, of course, you could not say, because you use your capital account generally; but so far as deducting the amount of the proceeds of the sale of such shares from the claim of the company under paragraph (*b*), there is no difficulty in doing that?—That could be done easily.

235. By so deducting, do you infer that no allowance in respect of the investment is claimed against the trader in the computation?—That is so; nothing would be claimed.

236. That seems to be clear. And now I think we may pass to your Schedule "B." I think you have told us all that need be told of the compilation of item 1 on folio 1. Now we will pass to item 2, which is a deduction. Will you first of all justify the deduction under item 2, which is in conformity with the fourth method referred to by the Minister?—Yes. In the method which we have adopted we charge against net income all expenses that are required to produce the net revenue.

Lord Advocate: I do not know whether I might ask my learned friends at this stage whether I need pursue this matter or whether they object in principle. I need not proceed to justify it at any great length, perhaps. I merely ask my friend to tell me if the method is in any way in controversy.

Sir Douglas Hogg: The method is in controversy to this extent. If they are going to claim the 1913 accounts are conclusive, then the method is open to very grave challenge.

President: If they are going to claim what?

Sir Douglas Hogg: That the 1913 accounts are conclusive, which I understand the Lord Advocate says; that is to say, that we are not at liberty to show that they are compiled on a wholly different basis from the 1923 accounts with which we are going to compare the results, so that we do not get a comparison of like with like, then I should challenge the whole of their method of computation and say it is entirely wrong. If you are going to compare 1913 with 1923, comparing like with like—that is to say, ascertaining that they are compiled on the same basis—then I should not object to the same deductions being made in respect of 1912 in the way that has been set out and in respect of 1923. You see, Sir, the distinction is this. What we are trying to do, as I apprehend, is to arrive at the 1913 revenue in order to ascertain what the 1923 revenue has to be. If you are going to say, "I start with my 1913 revenue as shown in an account and then I deduct some other items as shown in an account, and I arrive at that, and I then compare that with the net 1923 revenue," it is arrived at on a wholly different basis. Then I challenge the whole calculation, and I say every item must be justified and proved. But if my friend is going to do what I think—what I am going to submit presently he has got to do—that is to say, to show that the 1913 revenue as shown in the No. 8 Account is calculated in the same way as the 1923 revenue as shown in the No. 8 Account, then I agree that he can with regard to each year make a similar deduction of the interest items which are included in his item No. 2. If I may give an illustration, because it may make it clearer, suppose I find, as I think I can find, that the depreciation allowances in 1913 were millions of pounds less than the depreciation allowances in 1923—that is to say, that the amount deducted from the receipts in 1913 was £1,000,000, say, and the amount deducted from the receipts in

1923 to arrive at the net revenue was £10,000,000—then I should say you cannot take the 1913 account as it stands, compare it with the net figure which you arrive at in 1923 and say that one is £9,000,000 less than the other, when in truth the one would be exactly the same as the other if you had made the same allowance for depreciation in each case. That is the point I want to keep open. I am content if I am allowed to investigate the 1913 account that the deductions in No. 2 should be made in both years. I am not content to take the 1913 amount and make these deductions and then to take what that was as the 1923 account, which may be compiled on a wholly different basis, and take the deduction from that. I must be allowed to go into the whole thing and then I am content to say that we arrived at it on the basis that the Lord Advocate has indicated in his account.

President: Does the point which you have just been putting to us arise upon this particular deduction?

Sir Douglas Hogg: It only arises to this extent, that my learned friend is asking whether I agree with the method of deduction in item 2.

President: Yes.

Sir Douglas Hogg: I do agree with it, if I am allowed to do what I say I ought to be allowed to do, namely, to investigate the accounts of each year.

President: How would that bear upon the matter for the moment? You would not re-write these amounts which be deducts here, but you would deduct corresponding amounts for the year in which the account was being taken. It would not touch your point of depreciation at all, would it?

Sir Douglas Hogg: No, Sir. I only took that point about depreciation because it happened to be present to my mind at the moment. It may be that the No. 2 items which are sought to be deducted are calculated on the same basis in the two years in question; but I do not know. If they are, I do not mind; but if they are not, then I do not want to be bound to accept the deductions shown in the 1913 accounts, as is done here, and I do not want to be told that I am bound by those, if it turns out to be the fact, when we get to 1923, that they have not included the same items in the two deductions. I do not know whether they have or not.

President: Surely, Lord Advocate, you are going to include the same items of deduction when you come to put in the figure for 1923, 1924, or 1925, or whatever the year is? I do not mean the same amount, of course.

Lord Advocate: We are not concerned for the moment with the year 1923 at all, Sir; we are concerned with a historical investigation as to what were the aggregate net revenues in 1913 of certain companies. I have merely put this question: Assuming we take these revenues from the 1913 accounts, Account No. 8, do you agree, on that assumption, that it is proper to take the items that we have deducted here, if we wish to get at the aggregate net revenues on that basis? That was my question; but it would probably have been shorter if I had gone on.

President: Very well, then we will proceed.

Sir Douglas Hogg: Take it shortly, Lord Advocate.

Lord Advocate: It was my question that raised the point, no doubt.

Sir Douglas Hogg: I am a little nervous about something; that is all.

Lord Advocate: The territory into which we had travelled is a little difficult, no doubt, and it is always best to talk rather long when one is not quite sure as to the point which one is answering, because then one may say the right thing.

237. The point is this, Mr. Quirey: In this method of compilation, is it proper, in your view, to deduct the interest, rentals and other fixed charges?—Other than interest on debenture stock and loans.

238. Exactly?—Yes.

239. Because those items will, of course, recur in future years, and will later on be a proper item to be added in the total sum that has to be earned by the charges, with other sources of revenue?—That is so.

240. Therefore, to get at the aggregate net revenue, in your opinion, if this method be a sound method, the proper thing is to deduct these items in Account 9?—Yes, charges against net revenue.

241. That is the whole mystery about it, if that method be right. Accordingly, have you in Schedule "B" set out the details of the "interest rentals and other fixed charges other than interest on loans and debenture stock, and so on, taken from Account No. 9 of the various companies?—We have set out each item of the No. 9 Account; and then you will notice at the foot of the page that we cancel out the charges for interest on loans, interest on debenture stock, and dividends on rent charge and other stocks, leaving the columns blank and carrying into the net total of £1,238,391 only the charges against net revenue, and not appropriation of profit.

242. Exactly. Now I think in Schedule "B." which reflects the No. 9 Accounts of the railway companies, you have only made two minor adjustments, and they both constitute additions to the expenses chargeable against net income, thereby reducing net revenue?—In both cases.

243. And what are they, if they are worth attending to?—In the case of the Southern Company I have already explained that £671 has been added to the debit charge for general interest; that is in respect of an investment which has subsequently been cancelled, and which is an investment in the Mid-Kent Company by the London, Chatham and Dover Company.

244. Do not spend any more time over that item of £670; it is not worth it.—So far as the other adjustment is concerned, it is the London, Midland and Scottish Company, on page 4, where we have added to the expenses an item of the Caledonian Company's contribution to the Cathcart District Railway, not charged up by the Caledonian Company until 1914.

245. Is that the item of £3,210 which I endeavoured to explain?—Yes.

246. And that is the item which was not debited in the year in which it was shown as having been received by the Company?—It was shown in the Cathcart District Company's account as having been received from the Caledonian Company; but it was not shown in the Caledonian Company's account as having been paid out.

247. If we choose to look in the London, Midland and Scottish volume on page 92, we shall see how this item stood?—Yes.

248. I went through it at the time. Of course, there is a sense of proportion in these things, but sums of this sort do not affect the case at all, in the end of the day. They are a little irritating in making up the summation, and one is apt to wonder what has dropped aside, and I will therefore get a short explanation from you with regard to each of them. In the case of the Great Western Company there is something to be explained in column 5, "Interest on loans." I am referring to the Cardiff Company?—That is a case where in 1913 the amount of the loans of the Cardiff Company were not included in Capital Account No. 4, but were included in the balance sheet as a liability.

249. This is one of the matters that has been referred to by the Minister, is it not?—Yes, it is. The alteration that we have made here is for the purpose of making the year 1913 comparable with future years. Mr. Cope will explain the whole facts relating to that matter, I think; but the detail is available in the accounts of the Great Western Company.

250. *Mr. Jepson*: What is the amount?—The interest amount is £13,356. You will find the transaction in the Cardiff accounts, in the large volume, the general balance sheet, on page 64.

251. *Lord Advocate*: We need not deal with it twice if Mr. Cope is going to do it?—He can do it better than I can, because he knows the facts.

252. Then in the case of temporary loans and Lloyd's Bonds, which at the time of the amalgamation or absorption were transferred to amalgamated companies as liabilities, and not exchanged for capital stock, what did you do?—We have debited those against net revenue, just the same as a bank overdraft.

253. To what column do you carry those?—They appear in the "Special Items" column.

254. That is No. 11; and we get the details in Schedule "J"?—Yes, on page 43.

255. And there again we shall get references to the accounts of the particular companies, so that the matter can be followed out?—Yes. It is quite possible, of course, that capital may subsequently be raised to pay off these Lloyd's Bonds and temporary loans, but we have not taken any notice of that. We consider the charge of 1913 is a charge against net revenue.

256. Then the Minister has also raised a point with regard to appropriations in No. 9 account, which have not been deducted from the standard revenue figures?—Yes.

257. That is applicable chiefly, I think, to the instance in the London and North Eastern Company's accounts, to which I have referred this morning, of £300,000?—Of which £250,000 is other than general reserve.

258. Yes.—That matter will be spoken of by Mr. Williams, for the London and North Eastern Company. I do not know the facts relating to it; I only know what I have been told.

259. Does the figure which you get by carrying the results of Schedules "A" and "B" and deducting "B" from "A" give you (the necessary adjustments being made) the aggregate net revenues of the constituent and subsidiary companies, in correspondence with the published accounts of 1913?—Yes, the aggregate net revenues brought out in folio 1 are practically the published accounts of 1913.

260. We have had a question from Sir Douglas Hogg about the reopening of all the accounts. It is suggested that the 1913 accounts ought not to be accepted, with the adjustments which you have made, as the basis of our investigation to-day. I suppose that no one is more familiar than you are with what the reopening of these accounts would mean. What have you to say on the subject?—I should say that the reopening of the accounts cannot be for one matter alone. If the accounts are to be reopened, there must be a complete revision; the railway companies would ask that if the accounts are to be reopened for one matter, there should be a complete revision.

261. As far as we have got as yet, the only suggestion of a ground upon which the accounts should be reopened, or the only suggestion of a matter in respect of which the accounts should be reopened, is the alleged inadequate provisions for depreciation.

Sir Douglas Hogg: That was only as an illustration.

262. *Lord Advocate*: There may be others; but, at any rate, that is suggested as an illustration?—Yes.

263. Supposing that accounts were reopened for the purpose of revising the depreciation allowed, what would it involve?—It would involve, in my view, an examination into all the maintenance items. Depreciation is met by complete renewals and partial renewals and heavy repairs, and, in my view, even a reopening for this purpose would involve the examination of all the maintenance items in order to ascertain whether the provision for renewals, plus the outlay on partial renewals and heavy repairs, was sufficient to maintain and renew the hereditaments and the stock in perpetuity in the circumstances of 1913.

264. What you would have to consider is the adequacy of the maintenance charges as a whole?—We should.

265. And you would need to go into the question of maintenance charges in relation to renewals and repairs of ways and works, rolling-stock and plant, etc., in pepetuity?—Yes, it would have to be done, and done not merely by accountants; the matter would have to be considered in conjunction with the maintenance officers. The maintenance officers have certified as to the condition of the stock, and the auditors have certified as to the adequacy of the charges. If you were to go back upon it again, then, in my view, it would be a very big work, even for that one subject.

266. Then would you have to reinstate any reserves made and not required that is to say, reserves made against possible renewals, and so on, which were not required in the event?—Yes, it would be necessary to review the estimates made in the light of subsequent ascertainment. We would have to substitute for an estimate, the actual fact.

267. Throughout?—Throughout all the transactions of the company, both in the matter of receipts and expenditure.

268. Depreciation, of course, as one knows, is a relevant matter. You would need to reconsider and investigate the probable life of locomotives and rolling-stock, and all your other assets?—Yes; the provision made for renewal, I will call it, and not depreciation.

269. Yes?—The provision made for renewal of either permanent way or rolling-stock is based upon the average length of life of either the plant or the way, and I say that the provisions made in 1913 for renewal were made on that basis, so far as they were made. Some of the companies, of course, did not make provision, but charged the outlay upon complete renewals as incurred, and others limited the amount to their complete renewals because they indulged in extensive partial renewals. Therefore, I consider that the maintenance charges of 1913 were, on the whole, adequate to maintain and renew the ways and works and the rolling stick; that is my view.

270. *Mr. Jepson*: I suppose the practice of the individual companies in 1913 varied very much, did it not?—There was variation, but you may take it that the principal companies, that is to say, the large companies, did make provision for renewal of their ways and works and rolling-stock and other matters, based on the average life of the matter concerned.

271. They must have laid down a programme for so many years, and put by so much a year, whether it was expended or not. Did you mean that if those accounts had to be reopened, in the case of the big companies who had put so much a year to renewals of locomotives, permanent way, and so on, and had not spent it, and it remained in the railway's fund, if the account was opened in the case of the smaller companies, who provide bigger amounts for depreciation, the bigger companies who are now amalgamated would claim, in respect of the bigger companies so amalgamated, that they would have to carry back to net revenue such amount of the reserve as had not been expended?—I would not go so far as that with regard to renewals. When I said that they would have to reinstate for the year 1913 the actual figures instead of estimates, I had regard particularly to traffic receipts and liabilities other than renewals. I would be quite content that the 1913 renewal provisions should stand as a charge against revenue, whether spent or not.

272. *Lord Advocate*: As Mr. Jepson has alluded to the matter, I may say that, as one knows, some companies were called programme companies and others were go-as-you-please companies, if I may so put it. Two methods were in operation?—Yes; there were companies called provision companies, and companies which made complete renewals as and when required.

273. The others were programme companies?—Yes. As a general rule, the non-programme companies were smaller entities.

274. *Mr. Jepson*: Were there any other things? If you are going to reopen the 1913 accounts, I want you to give me your view upon it. Some of the larger companies used to charge to revenue account many comparatively small amounts up to £300 or £400 which might appropriately be charged to capital account?—Yes.

275. The smaller companies could not afford to do that. If the accounts had to be reopened, it might happen that the big amalgamated companies might say: "If the accounts are going to be reopened, we must bring these amounts out of revenue account and charge them to capital, and thereby increase the net revenue for 1913."—Yes, exactly. If I was advising in this matter, and the question of the reopening of the 1913 accounts was brought up. I should advise that the railway companies should claim to take out of revenue expenditure all work on improvements or capital additions of small amounts.

276. *Lord Advocate*: Would you find yourself embarked upon a large series of highly controversial questions?—Yes; but I think I might say that I do not fear a reopening from the financial standpoint.

277. I do not mean that you are frightened, but I am rather contemplating what it would mean.—If there was a reopening, I should not like to have to undertake it.

278. *Mr. Jepson*: Can you tell me this in a very general way: Supposing that the accounts were reopened, and everything were adjusted on the lines that you have mentioned, do you think that the effect would be to increase the net revenue of 1913, or to reduce it?—I think there might be an addition, but I think it would really be a matter of change for sixpence; that is how I can put it; I cannot put it higher than that.

279. *Lord Advocate*: Let us carry it a step further: it would not be a question of what should be done now—assuming the criticisms were effective—but what should have been done in 1913?—Yes.

280. It is a challenge of the net revenue of 1913, and, therefore, if there is an allegation that sufficient deductions for depreciation or anything else were not made at the time, it is a question, not of considering as at the present day, with that material before you, what depreciation should be allowed in the present day accounts, but it is a question of what should have been allowed in the accounts 11 years ago?—Yes. I am not quite prepared to discuss this question, because I understood that this subject would not arise at the present inquiry, but that it would be a matter which we should consider possibly in conjunction with the traders in arriving at the estimate of working expenses in future years; but evidently it is not to be done in that way.

281. I am sorry if I have trespassed upon anything that has been agreed between the parties, and I shall drop it at once.—What I say is that I am not prepared to go into this matter, from the point of view of figures, to-day; I can only give general views about it.

282. I was only asking you a very general question for the moment. If the criticism is to be admitted, it would be a criticism applicable to the revenue accounts of 1913?—Yes, exactly.

283. Therefore, it would be asking that the question of depreciation, or renewals, as you prefer to call it, which had been decided in 1913, should be otherwise decided in 1924 upon a review of the accounts?—Yes.

284. Just follow me: That being so, is the difficulty increased because documents and persons are no longer available, which were available to the persons who were considering these problems in 1913?—Exactly.

285. You would have to reconstitute the position of 1913 in order to pass a proper judgment upon the accounts of 1913 and upon what your predecessors did in 1913; is it not so?—Yes; many of the officials are gone, and I do not think that the documents are available in many instances.

286. And, of course, there is also this, is there not, which always occurs with depreciation, that an item may be perfectly properly charged in account for depreciation and therefore may be a proper debit to the accounts of that year, although, in fact, as the event proves, when the risk has run off, too much was carried to depreciation?—There might be an over-provision.

287. Yes; or there might be an under-provision?—Yes.

288. But the question of the amount has to be judged, not as the event reflects upon it afterwards, but as at the time when you were making the provision?—From the facts available at the time when the provision was made.

289. And you would, therefore, have to reconstitute the position as it was in 1913, not in the light of what has happened since, but you would have to consider whether what was done in 1913, with the knowledge available at the time, was a fair arrangement or not?—Yes; and that would apply to items other than depreciation, particularly estimates of liabilities and otherwise.

290. You have to budget in your accounts, and you put in an estimate. The traders might have said, in criticising the 1913 accounts in the year 1913, that it was a perfectly proper estimate; but in 1918 they might have said that the event has proved it to be a gross over-estimate or under-estimate, as the case may be; yet it was an honest estimate at the time?—I think you would find the estimates in 1913 were on the generous side, because we had had a good year.

291. In so far as they were generous, they would be to the traders' interests, and in so far as they were niggardly they would be adverse to the traders' interests?—Yes, that is so.

292. If the Court is pleased to order a revision of the revenue accounts and a re-opening of the accounts of 1913, that will, of course, have to be done; and you will then have to re-submit your case, with the necessary adjustments per contra?—Yes; we should have to ask for a very long adjournment. The companies in their claim say that they are content to accept the amounts which were dealt with in the Government control period as being the receipts of 1913, the receipts above the line.

293. Now I think you have explained items Nos. 1 and 2 on folio 1.

294. *Mr. Jepson*: With regard to your last answer, Mr. Quirey, is it a fact that before the 1913 figures were accepted by the Government as the basis upon which compensation was paid they were subjected to very close scrutiny by accountants?—I could not say. There were eminent accountants who acted for the Government, Sir William Plender and Sir Albert Warren, and I am sure that they approved of the 1913 accounts as published being taken as the basis of compensation.

295. At any rate, all the accounts based on the figures for the year 1913 were subjected to very close scrutiny by accountants before an money was passed by the Government to the railway companies?—I misunderstood your question, Sir.

296. I wanted to get the basis first?—Yes.

297. I imagine that, as the accounts for 1914, 1915 and so on up to 1921, were very closely scrutinised by the Government before any payment was made, the basis on which those pyaments were made would be equally closely scrutinised?—I do not know that.

298. *Lord Advocate*: I think you have explained items Nos. 1 and 2, that is to say the total net income, with the adjustments which you have justified, and the deductions made for the purpose of getting the aggregate net revenue. Those are by far the largest figures with which the Tribunal has to deal, the 1913 revenue?—Yes. It is a total of £45,000,000 out of £49,000,000, which is more than 90 per cent.

President: I am very sorry to disappoint you, Lord Advocate, but one of my colleagues has an engagement, and it is necessary that we should rise at 4 o'clock.

Lord Advocate: May I say two things before you adjourn, Sir? I venture to ask the indulgence of the Tribunal to allow my learned friend Mr. Clauson to complete the examination of this witness, as I have to be elsewhere, not in another Court, but at a public engagement, which I really must attend. There is another matter, which is one in which I voice the feelings of a good many people in this room, and that is the question of continuous sittings right through this week. I am reluctant to refer to it, because you

have announced it, I believe, as being the decision of the Tribunal; but I am told that the railway people are greatly inconvenienced, especially towards the end of the week, by sitting straight through. So many of them, of course, have to be here just now, and to be here five days a week is certainly a very great hardship to them, and to a good many of the traders, too, I believe.

President: I should like to hear representations from the traders' point of view as to what would be convenient to them. Of course, we exist for the convenience of both of you.

Lord Advocate: So far as Counsel are concerned, I personally will do anything that the Tribunal wishes; but certainly those instructing me find themselves gravely embarrassed; otherwise I would not have mentioned the matter.

President: What do you say about it, Sir Douglas?

Sir Douglas Hogg: As far as the traders are concerned, I am very unwilling to appear to be unaccommodating. I am sure my learned friend knows that I do not want any inconvenience to be caused to anybody, but the traders do feel strongly that it is much more convenient to get on with the matter; and to sit for two or three days this week and then adjourn, and then to sit for two or three days next week again, is very inconvenient. We should infinitely prefer to get on with the case, because there is a very long vista before us if we only sit for two or three days a week, as we shall have to pick up the threads in between, and it breaks into other business. It is not my business to suggest it to the Lord Advocate, but I should have thought that those instructing him need not all be present all the time. I see representatives of each railway company here, and I should think that some of them, at any rate, need not attend every day. We do feel that it would be much better, in the interests of everybody, to go on continuously with this Inquiry, as you yesterday stated that you were going to do, as far as we can. If there is any point at which we arrive, when it is necessary to have an adjournment (as we anticipate that it will be), then I should suggest that the Court should adjourn for such a period as would enable the parties to reorganise their shattered forces and to re-arrange their accounts as may be necessary. I do humbly submit that it will be much more convenient for the solution of the questions upon which we are embarked, if we go steadily on with this Inquiry, just as an ordinary trial, until we arrive at such a stage as is convenient for an adjournment in order that the Tribunal may give its decision upon any point of principle that arises.

My learned friend the Lord Advocate ventured to mention that he was in a difficulty to-morrow. May I very respectfully and reluctantly say that I, too, am in a difficulty. Again, it is not a brief, but it is a public engagement, the nature of which I have communicated to my learned friends. I have asked Mr. Clauson, and he has told me that subject to the consent of the Tribunal he will be quite willing, if Mr. Quirey is finished before the adjournment to-morrow, to take another witness, and let me cross-examine Mr. Quirey in the afternoon. If necessary, I can communicate to the Tribunal what my engagement is, but it is a public one, which it would be rather difficult for me to put off.

President: I am obliged to you for mentioning it. I think for the present we must continue, if you please, Lord Advocate.

Lord Advocate: If you please, Sir. I merely wanted to mention that some people were being embarrassed by sitting each day, as I was strongly pressed to do so. It was not a question of my own personal view.

(*Adjourned till to-morrow, at* 10.30 *a.m.*)

(46038—1) Wt. P 2561A—1581 1000 5/24 H. St. G. 71.